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THE
DOCTRINE
OF
EQUIVALENTS, &c.

PART I.



THE
DOCTRINE OF EQUIVALENTS;
OR AN
EXPLANATION
OF THE
NATURE, VALUE AND POWER
OF
MONEY:
TOGETHER WITH THEIR
APPLICATION IN ORGANISING
PUBLIC FINANCE.



BY GEORGE CRAUFURD, Esq.

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INTRODUCTION.

ALTHOUGH the developement of this intricate subject has been attended with considerable application on my part, yet a great degree of attention will be required from my readers, in order to supply that want of perspicuity, which may appear in the explanation of many abstruse points, and which I hope they will in some measure attribute to the nature of the enquiry.

The consideration of my incapacity to do the subject that justice, which its importance naturally claims, would indeed have deterred me from publishing the result of my meditations, had I not been

extremely solicitous of eradicating many prevailing notions respecting Money, which appear not only to be in themselves unfounded, but which have served also to involve in confusion and obscurity every subject connected with them.

I must confess, at the same time, that I was urged to the full investigation of this important and much-neglected science, by the desire of explaining more fully those principles of finance, which I published some years ago, and which, from being totally misunderstood, were not much attended to.

How far this attempt to elucidate that Work, may succeed, is uncertain; but I will venture to assert, that it is utterly impossible, either to ascertain the first causes of relative value, and form the science of political economy into a comprehensive, clear and familiar system, or to trace out any consistent theory of

finance from those principles of Money which are laid down by Mr. Harris, Mr. Hume, Sir James Stuart, Dr. Adam Smith, or any other Writer on that subject.

Had any of those Authors, who pretended to a knowledge of the nature of Money, proceeded to an examination of the principles that give rise to the difference which so evidently exists in the money-price of various objects, and which sufficiently indicates, that a certain price or quantity of Money is specifically or justly due to every object; they would naturally have been led to a discovery of the effects which ensue from giving occasionally more or less than this just value, as well as of the fallacy of their general position “*that by increasing the quantity of money in any country, the value in money of every object must also increase.*”

An investigation of this kind would have shewn to them, that the quicker and slower motion or circulation of money from hand to hand, which in its effects is of the same consequence as increase or decrease of quantity, must of course destroy their assumed hypothesis, and that the possibility of an increase or decrease of objects to be represented, would infallibly subvert the position above-mentioned, if proved to be dependent on, or concomitant with the increase or decrease of money. By adhering therefore too much to the principles of Writers in an earlier age, they deceived and perplexed themselves, as well as their Readers, and have unfortunately left the subject to be further explained.

I say unfortunately, because in refusing the opinions of such celebrated Authors, I feel my own want of talents as a Writer; while it must be acknowledged, that their superior abilities would have

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made the truth appear more conspicuous.

I flatter myself, however, with every indulgence from the Public, as a return for my zeal in attempting to correct errors, which have not only been received as truth, but which, from the reputation of their Authors, and from the indifference of mankind to investigations of this nature, have been adopted as fundamental principles in the policy of States.

I must at the same time observe, that it is become of the utmost importance in the present state of increasing taxation, to ascertain, in the fullest extent, the nature, the value, and the power of the precious metals; and I therefore consider it incumbent on me (as professing some knowledge of the subject) to trace the origin and progress of their use, as well as their operations in fixing the money-value of every object, which human

industry can either obtain or produce; with the causes that contract or extend the industrious exertions of man, in order to shew the inconsistency of the received opinions, and the political errors which have resulted from the admission of false principles.

It must doubtless appear very extraordinary to men of reflection, that no conclusive arguments, or consistent theories, are to be found in any Work hitherto written on this important subject, and that every publication has been confined to some partial explanations respecting industry and commerce, to some assumed and vague principles concerning Money as well as public credit, and to some vain attempts to reconcile contradictory effects, which the Authors of such Works were under a necessity of stating, and with the causes of which they were unacquainted.

This appears evidently to be the case even in Sir James Stuart's *political economy*, which successfully combats the opinions of Messrs. Montesquieu and Hume, by proving them inconsistent in their reasoning; but it unfortunately does not develop any fixed principles or ideas for the purpose of obtaining more uniform and comprehensive consequences.

I mention in particular the Writings of Mr. Harris, Mr. Hume, Sir James Stuart, and Dr. Adam Smith, because they must be in the recollection of every enquirer into this subject: and as Dr. Smith's *Work on the Wealth of Nations* has met with almost universal applause, on account of the perspicuity of his style, it becomes the more necessary to shew the fallacy of his ideas; and especially in those parts of his Enquiry, which either tend to establish an improper and nowise existing distinction between gold and silver, by affixing to the latter only

the denomination of *standard*, or which attempt to prove, that the natural price of every commodity increases by the greater abundance of the precious metals, which is to say, in other words, "*that gold and silver, from the circumstance of their greater relative abundance compared with other objects, lose in their comparative value with those objects.*"

I cannot indeed deny, that the precious metals have lost in their value within this century; but this appears only in the decreased rate of interest, which constitutes their *real* and I may say *only* price.

It is not less true, that the price or specific value in the precious metals, which is really due to almost every commodity, has been much increased during the same period; but the accumulation of taxes on *various* objects, and their extensive influence over *all* the necessities of life, easily explain the cause of

INTRODUCTION.

this enhanced value, without having recourse to the increased quantity of money, which must infallibly have produced the contrary effect, if that accumulation of taxes had not taken place.

There would indeed be *a great impropriety of expression* in saying, that the fluctuating specific value in money of different objects, should be considered as the price of the metals; because experience sufficiently demonstrates, that this fluctuation in value is for ever partial, and nowise uniform on all objects, which precludes the possibility of applying it to indicate a change in the general medium called Money; neither can the metals, when representing every object, be considered in any other light, than as *a measure or equivalent*, of which more or less is ultimately required for the production of each object, from a combination of causes, that are to be traced in this Work

The necessity of making this distinction between the interest of Money *as its price*, and the specific quantity of it due to each object, when exchanged for Money, *as its measure*, will, from the nature of the investigation, appear in a very conspicuous point of view; as well as that of the further distinction which I shall make between the causes of such specific value, when they are entirely independent of all taxation, and when they are combined with it; in order to shew, in the clearest possible manner, the mode in which the rise and fall of interest affect ultimately the price of every object.

A very little reflection would indeed point out, that the fall of interest from the abundance of Money, admits of a diminution in the specific value or price of all industrious productions, to which diminished value the manufacturer could, on selling them, cheerfully consent without injury to himself; while a rise of

interest, from a scarcity of money, produces on the contrary an increase in that specific value, which the manufacturer could not possibly dispense with on disposing of his productions.

But mankind do not hesitate to maintain, and all Authors who have written on the subject, flatter the idea, "*that the relative abundance of the metals tends simply to increase the specific value of every object; and their relative scarcity to diminish that specific value, on account of the faculty which the possessors of money have to give more or less.*"

This position may, to superficial enquirers, appear conclusive; but a thorough investigation of the subject will shew its fallacy, and that the effects which they point out, could only be temporary, because in the one case there must necessarily arise an encouragement to produce more objects; and in the other case a dis-

encouragement from the production even of the same number of objects which had before been usually produced ; as will be demonstrated in explaining the principle by which this increase or decrease of industry is directed.

It will certainly not be denied, that some *varying* cause directs the promotion or the destruction of industry, independent of that degree of security in property which is afforded by each Government, and which, by being generally in the same state for a long period, cannot in itself have either a progressive or a changeable influence on the mass of industry ; neither can it be disputed, that the principle of taxing any object must infallibly add to its specific value in money ; which shews the necessity of examining each cause and each effect separately and distinctly, before any general and positive conclusion, respecting finance, can be universally admitted.

I propose therefore to examine the primitive and immutable causes of the different degrees of value attached to every object; the principles which regulate that specific quantity of the precious metals, to which all things are entitled; the means, by which those proportions are always kept up; and the origin of the multiplication of objects in each class of industry.

I shall also add such observations on the writings of other Authors, and on the application of my own principles, as may appear useful and necessary.

Whatever relates to Money, will be more or less touched upon; and I trust that the important truths which I endeavour to explain, will, sooner or later, be generally understood, and bring about an entire new system of policy respecting finance, not only for the purpose of extending the population, the agri-

Let us suppose, for instance, that the taking of ten birds required no more time than was necessary to catch one hare; the price of barter became then established at the rate of one hare for ten birds.

A little experience shewed the different degrees and kinds of labour which were necessary for procuring every object; and upon this principle a general scale of value took place.

This necessary and, to appearance, regulated proportion, was indeed sometimes disturbed by a more general consumption of one article in preference to another; as we may suppose, for instance, that fish might in many places have been preferred to hares; such a circumstance would naturally discourage the hunters, and encourage the fishermen, by the latter being overpaid, and the former underpaid in this general barter of labour against labour.

Self-interest, however, prompts the generality of mankind to follow the most lucrative employment, and to increase their exertions, wherever they are most wanted: the greatest quantity of food, cloathing, and conveniences, procured by the least trouble, was at that time, as at present, the price or *lucre* to be derived from the possession of any object that was much wanted; and being a sufficient inducement to alter the mode, or to increase the quantity of labour, a greater number of persons would naturally take to fishing, and restore by those means the necessary proportions of value for keeping up both employments.

In this manner did a tendency to disorder produce the remedy itself, by encouraging a greater production of the object that had been overpaid; and this unerring principle will always continue to be the groundwork of human in-

dustry, whenever the number of objects is not limited by nature, as may frequently be the case.

The precious metals derived also their relative value from the labour exerted in procuring them; and were at first only employed as ornaments and utensils.

It may be here necessary to observe, that a contribution in kind on every production for the purposes of Government, could not in any degree alter these regulated proportions, because the act of levying a twentieth, a tenth, or any other moderate proportion of each man's industry, produced simply the consequences of diminishing the stock of each individual (whether his own production or what he procured by barter), and of inducing him to increase his labour for the purpose of supplying the deficiency, in case his wants should require it.

Public contributions, therefore, were at that time rather incentives to further labour, and did not check the progress of industry, as at present appears to be the case, from their *partial* exaction and complicated effects.

When civilisation advanced, a relative value established itself between mental and corporeal labour, solely by means of competition, as there could be no fixed standard of value between them.

This competition was, however, well poised by counteracting principles; a too high evaluation of the mental powers was prevented by a more general cultivation of the mind; while the limited mental endowments of by far the greatest number of individuals prevented a too great depreciation of those powers.

A new sort of property must also have arisen in an early period of society

from the cultivation of certain spots of ground, which became annually productive, and to which the established rules would not apply, because Nature acted her part as well as Labour, in producing the objects required.

The more enlightened part of mankind must at the same time have discovered that there existed a general inconvenience with a consequent impediment to the further extension of industry, from the want of a medium, by which every object might be more quickly exchanged, and retained at its due proportion of value.

Cattle and hides were consequently first thought of as proper intermediate signs of value for the purpose of facilitating every kind of exchange.

It may seem extraordinary, that such unwieldy objects should have been pre-

ferred to others; but it must be considered, that every thing, excepting the metals, or some object of as small volume, and of equal durability, would have been equally troublesome; that cattle and hides were objects of general use; were easily transported from one place to another; and that the first, in particular, had a great affinity to land, with respect to its naturally productive powers.

The evident distinctions, which existed between corporeal and mental labour, as well as between either of those sorts of labour and the produce of nature, made it then necessary to adopt several new considerations in ascertaining the relative value of one thing with another; and particularly when both objects to be exchanged, had the quality of annual production adherent to their nature; in which case, the three following circumstances required a very attentive investigation, viz.

encouragement from the production even of the same number of objects which had before been usually produced ; as will be demonstrated in explaining the principle by which this increase or decrease of industry is directed.

It will certainly not be denied, that some *varying* cause directs the promotion or the destruction of industry, independent of that degree of security in property which is afforded by each Government, and which, by being generally in the same state for a long period, cannot in itself have either a progressive or a changeable influence on the mass of industry ; neither can it be disputed, that the principle of taxing any object must infallibly add to its specific value in money ; which shews the necessity of examining each cause and each effect separately and distinctly, before any general and positive conclusion, respecting finance, can be universally admitted.

I propose therefore to examine the primitive and immutable causes of the different degrees of value attached to every object; the principles which regulate that specific quantity of the precious metals, to which all things are entitled; the means, by which those proportions are always kept up; and the origin of the multiplication of objects in each class of industry.

I shall also add such observations on the writings of other Authors, and on the application of my own principles, as may appear useful and necessary.

Whatever relates to Money, will be more or less touched upon; and I trust that the important truths which I endeavour to explain, will, sooner or later, be generally understood, and bring about an entire new system of policy respecting finance, not only for the purpose of extending the population, the agri-

dered relative to labour, (the point being duly ascertained to whom the soil originally belongs); and to local circumstances must be further attributed the various and widely-differing values for the same kind of ground.

Such competition-value must consequently be determined by the relative quantity of land compared with the quantity of labour or number of inhabitants; and the local differences, by the advantages to be derived by assembling in large bodies on commodious spots of ground, compared with the disadvantages that arise from living at a distance, or in places of difficult access.

Those differences must naturally be very great, while uncultivated land is to be procured, and that the produce of its cultivation must be transported to any distance.

It becomes useful, therefore, to observe, and to keep in view, that it is not possible to ascertain the just proportion either of the relative value of uncultivated land, or of that of mental exertions, as compared with corporeal labour, in the same manner as may be done where corporeal labour is alone employed; but there can be no doubt, at the same time, that the above-mentioned competitions have certain bounds, beyond which they cannot proceed, and which depend on a variety of circumstances too numerous and complicated to be stated with any degree of precision.

The second consideration of the probable ratio of the annual increase of an object from its *natural* powers, meets with less difficulty.

Some part of the *natural* produce was, indeed, always supposed to depend

on chance, or on the uncertain degree of effects which arise from the seasons, and against which no human industry could provide; but the experience of former years established at least *data* for some calculation, and the distinction between the natural and the artificial effects required particular attention, for the following reasons, viz.

Every soil has more or less the power of producing spontaneously; but by adding labour and other materials to it, this produce is considerably increased.

In one case, $\frac{3}{4}$ th of such produce might be attributed to natural causes, and $\frac{1}{4}$ th to labour, and other ingredients.

In another case, $\frac{1}{4}$ th only might be attributed to the latter, and $\frac{3}{4}$ th to the former.

These proportions of labour and other materials, remained always to be

added yearly, in order to obtain the *general* produce; and it became therefore necessary, in the first instance, to deduct such required proportions from the respective values of annual produce, in order to ascertain what was done by *nature*; as it made a material difference to the owners, whether they had to purchase in future $\frac{2}{3}$ ^{ths} or $\frac{1}{3}$ th of the real value.

This additional labour, and those materials, which I have been endeavouring to point out as absolutely necessary to obtain any production, must however be understood as independent of what may be further added for the purpose of increasing its future *spontaneous* powers, or what is called improving an estate, which gives it an additional value after its produce is disposed of.

There remains, then, ultimately to be considered, the probable term of enjoying such produce, which depended on its

limitation by agreement; or, if nowise limited from that cause, either on the uncertain events of nature, as in cases of life and death, or on the stability of Government, together with its due observance of justice in enacting, as well as executing, such laws as were necessary towards the security of property.

In order to form a clearer idea of these different causes of relative value, by the proportion of numbers, I shall suppose, that two annually productive objects, limited to a certain number of years, are to be mutually exchanged:

One shall be as 1000 in natural or competition-value; 8 pr. ct. its productive powers by nature; and 2 pr. ct. more by artificial exertions: in all, 10 pr. ct.

and 10 years its duration.

OF EQUIVALENTS. 29

The other shall be as 1200 in natural
or competition-value; 7 pr. ct.
annually its productive powers
by nature; and 4 pr. ct.
more its artificial powers;
in all 11 pr. ct.
and 11 years its duration.

The general result in comparative value of these varying causes in different objects, will be as 800 for the first, to 924 for the last.

8 pr. ct. on 1000 is 80; multiplied by 10 years, is 800.

7 pr. ct. on 1200 is 84; multiplied by 11 years, is 924.

There might also arise a further distinction between these two capitalstocks, should the produce of the one be inert and consumable, and that of the other reproductive; in which case the latter

would be further entitled to the compound ratio of its *natural* produce during the term of its duration, in the same manner as compound interest is calculated on money.

The joint powers of nature and of labour, may therefore be said to have formed the component parts of every thing produced; and although a relative value subsisted even in an early period of society between both, upon the principles already described, yet no determinate medium or price could be said to exist for defining each, excepting that of numbers.

Dr. Adam Smith has indeed endeavoured to prove, that the real price of every thing, is the labour employed in producing it. It appears, however, beyond a possibility of contradiction, that Nature acts her part also, which destroys his hypothesis.

There does not even (in this state

of things) appear a possibility of tracing any foundation of value in many cases, excepting the competition-value between Nature and Labour, according to their respective bounds and powers; and although a specific measure in the precious metals, under the denomination of Money, has since that time been generally adopted, yet such measure, when considered in its original abstract situation of a commodity procured by labour, would still have been subservient to the same principles, did not its universality, and consequent powers of production, called Interest, give it a new character, which will be further explained in a subsequent Chapter.

To trace, in the mean time, how a comparative value was established between land, cattle, and other property of a nature to return an annual produce, and those objects which return no such produce, it is necessary for me to ob-

serve, that the foundation from whence arose all produce whatever, consisted in natural and in artificial labour, represented by *soil, cattle, slaves, and freemen*, jointly or separately, the possessors of which considered them as so much stock in hand, of which the annual produce was to be afterwards exchanged for whatever their exigencies might from time to time require.

A productive and an unproductive object, had therefore the same kind of origin or foundation; and the relative or competition-value of every foundation was ascertainable in the manner already defined.

The natural or competition-value of a productive stock, and its consequent *natural* produce, became then to be compared with one year's *general* produce of the natural or competition-value of some other stock.

Suppose, for instance, that the competition-value of the former was 1000;

8 pr. ct. annually its natural produce; 2 pr. ct. its artificial powers; and 10 years its duration.

The full value must be 800, or 10 years purchase of 80, being 8 pr. ct. on 1000.

If this produce should however, be naturally reproductive, the rate of that *natural* produce must still be compounded with it, as before stated.

Let the competition-value then of the latter, from whence the unproductive object arose, be as 1200, and 10 pr. ct. the *general* produce.

The full value of the consumable object must be 120, or one year's purchase.

The power of thus converting, or

exchanging an unproductive object by a fair barter into a stock, or foundation, giving an annual and independent income for a certain number of years, until an equal value was returned, induced individuals to be more industrious, and particularly so, when, through the wisdom of Government, security in property became better ascertained.

It must appear evident, that however much mankind were inclined to produce such objects only as would reproduce, yet the necessity that must have existed for producing consumable objects of indispensable use to each individual, would at all times prevent the former being over-rated when exchanged against the latter; while there can be no doubt at the same time, that, from the naturally reproductive quality of many objects, and the general desire of mankind to accumulate, the mass of stock reproducing annually, would

continue yearly to increase from the general savings, until a compleat maturity, or that degree of population and industry, which any given tract of country would admit of, had taken place.

The impediments, which often arose to this increasing principle in industry, could formerly only be traced to the want of proper protection, to which may now be added, the want of an additional quantity of the medium of representation, which will soon appear to be a necessary cement in every increase.

We must not however, from this circumstance, lament the introduction of a medium of representation; as, had it not existed, the nature of a mature state would have been very different from what it now is, an account of the physical impossibility of promoting the

same degree of population and industry on any given tract of ground, without the facility which arises from such medium.

Before I proceed, however, to this new order of things, which took place on the introduction of the metals as representative signs, it is necessary to recapitulate what I have said, as I wish to impress very strongly on the minds of my readers the first principles of relative value.

It has been stated above, that those objects, which were procured by corporeal labour only, were exchanged according to the nature and degree of it, which each required, and that any deviation from such principle, occasioned by the desire of man for one thing in preference to another, was checked by the encouragement which immediately arose to produce more of the objects

preferred, excepting in cases where nature limited the number of objects, and in which therefore the competition price could have no bounds set to it.

The same principle applied also in some degree to establish, or at least to check, the relative value between corporeal and mental labour, although competition was the foundation of their primary value.

It has also been stated, that the comparative value between uncultivated soil and labour arose from the relative quantities of each, or the given number of inhabitants on any particular tract of land; and that great local distinctions arose from the assemblage of many individuals on one spot, and the advantages resulting from that assemblage, compared with those to be obtained in a more solitary and distant situation.

I have also mentioned, that an intermediate sign was found necessary, in order to facilitate and multiply exchanges; and that cattle and hides, though inadequate to the objects in view, were first adopted for that purpose.

My readers will further recollect, that three considerations were necessary to ascertain the relative value of each species of property, which produced independent incomes, viz.

The labour to be employed, or the competition difficulty to be surmounted in procuring each of these objects; their probable annual produce from *natural* causes; and, lastly, the positive or probable term of years, during which each property would be possessed.

The first proceeded from the soil and its natural powers, as also from

different kinds of bodily and mental labour combined together and brought to consistency; the second depended on the species of object with the experience of its naturally productive powers in former years, and the last on a limitation by positive engagement to a period of years, or, if unlimited, on the uncertain events of nature in the cases of life and death, together with the stability of Government and the proper administration of justice.

The further principles necessary to trace a comparative value between objects, that were to produce, and others which were not to produce, consisted in tracing the comparative or competition-value of the stocks or foundations from whence each arose.

The rate of the natural produce of the productive stock, multiplied by the term or years of its duration, was then

to be compared with the absolute value ascertained to have arisen in producing the consumable object either by nature or art.

By means of all these principles, it was in the power of every man to trace a relative value between all things, excepting only those parts in which nature was concerned, and which therefore must necessarily have been left to chance: and all objects were even exchangeable with each other, without the intermediate and incompetent signs of cattle and hides; but the introduction of the precious metals, as a general medium of representation, procured more completely the object of greatly facilitating and multiplying every kind of exchange, while they simplified, at the same time, the first principles of relative value.

It will also be found, that they pos-

sessed, from their natural and acquired qualifications, the most *unbounded powers* in organising public finance ; their virtues have, however, unfortunately been so much misrepresented by mankind, as to have occasioned the introduction of the most perplexing and dangerous theories, which human ingenuity could invent.

CHAPTER II.

On the Principles by which the specific Quantity of the Precious Metals due to each object is regulated.

IN the preceding Chapter I have stated the cause and the nature of a relative value, which subsisted between all things; and although it appears, that when the objects to be exchanged were not of the same nature, the great principle or ground-work of such relative value was Competition: yet it is equally evident, that this competition was always counterpoised and regulated by the interest and industry of individuals; from whence we may conclude, that there has always been traceable, from experience, a just and relative value for all things, excepting in

those cases where nature limited the number of objects.

To retain all things at that just and relative value with one another, is consequently an unerring principle, which self-interest implants in the mind of man, and no human laws can so effectually operate to that purpose, as the natural pursuit of the whole community.

It has been already observed, that the metals derived originally their relative value from the labour required in procuring them, and that they were at first only employed as ornaments or utensils.

The reasons which induced mankind to adopt them, as the properest representative signs, were, no doubt, because they were divisible to the smallest purposes, sufficiently durable in their na-

ture, and easily transported from one place to another.

A relative value being already established for these precious metals, it is natural at first to conclude, that the specific quantity of them to be given for any particular object, was ascertainable upon the original principle of their being an unproductive property, procured out of the soil by labour, and that there was of course no necessity for taking any new principle of value into consideration.

When we reflect, however, on the great demand which inevitably took place in consequence of their adoption, as a medium of representation, we shall find no difficulty in tracing the necessity of admitting a new principle of value, and at the same time discover in what manner interest or annual production arose, as well as the wonder-

ful arrangement of power and profit that ensued to every community.

It is, in reasoning on this point, that all Writers on the subject of Money depart from the first principles of its institution as a representative sign ; and to their imperfect suggestions, may be attributed a series of errors, which have produced many superficial, confused, and discordant theories.

To trace, then, the origin of Interest of Money, we have only to suppose, that many individuals perceived a great advantage in the possession of pieces of copper, silver, or gold, for the purpose of exchanging them, upon the principles already established, for what things they might want in sowing, superintending, and gathering in their yearly crops, or in carrying on their manufactories ; and that they were therefore willing to procure a quantity

of them, not in exchange against any thing, but on the simple condition of their being returned again to the proprietor *with a certain additional number*, (from ten to fifteen per cent possibly in those days) after the realisation of their crops.

It is evident that, as those individuals who had occasion for these metals, could on the one hand afford to add this premium to the sum borrowed, on account of its having been the means of extending considerably the general produce of their industry; so these metals, on the other hand, were fully entitled to this new consideration of annual hire for their use, from the generally good effects which they produced.

The metals became then, of course, classed with that kind of property which produces annually, and, from

their universal utility, they obtained the right of precedency in estimating all things.

They, indeed, soon lost their original principles of relative value; but the reproductive power of interest, which they had obtained, gave ample encouragement to raise a greater quantity of them by labour.

By the attraction also of this annual premium, money was constantly moving from hand to hand, as every person lost so much increase by retaining possession of more than was necessary for his daily occurrences.

The most common observer will perceive, that this constant and *inevitable* activity in the metals, enabled a small mass of money to transact the business of a great community, and that each time it moved was *tantamount* in its

general effects, to doubling the quantity.

The rapidity, therefore, with which money moves, from hand to hand, forms a material part of its powers; and it consequently becomes necessary to state every principle which affects that circulation, before I proceed to explain those causes which, by raising or lowering the money value of the objects to be represented, occasion a relative scarcity or plenty of money, in as great a degree, as if the number of objects had been increased or diminished.

It has been observed, in the preceding Chapter, that security in property was the primary cause of all industrious activity; and this principle applies, with peculiar propriety, to the activity of money; because the interest of individuals requires, that what-

ever is exchanged for money should be possessed, with as great a degree of security, as human justice can, upon general principles of policy, contrive to establish.

to If all Governments then differ from each other, as to the degree of security which they afford to property from the nature of their laws, and from the degree of justice observed in carrying them into execution, there must naturally exist, at all times, in different countries, a considerable variation in the rapidity with which money either circulates from hand to hand upon simple credit, or is exchanged for other property producing annually, as well as in the premium demanded for its hire.

A moment of general confusion, or discredit, will also produce a partial suspension in the circulation of the

representative signs, but tranquillity will restore it again, provided those signs have not been sent out of the country.

The high or low rate of interest, arising from the relative scarcity or plenty of money, may further occasion some change in the rapidity of circulation, as mankind are more or less disposed to part with their money, in proportion as they are tempted with a high or low premium for its use.

This circumstance can, however, only be considered as a trifling check to the full consequences of plenty, or of scarcity of money; and we have therefore only to attend to the two first-mentioned causes of the variation of which I am treating.

In forming an idea of the plenty

or the scarcity of any commodity, it is in general to be understood, as meaning the quantity of that commodity compared with the quantity of some other object, which can only be ascertained by the demand for the one as offered to that for the other; but, in tracing the cause of a relative plenty or scarcity of money, compared with other objects, there appear to exist the additional considerations of the degrees of motion inherent to the first, and of the specific or nominal value of the last; both which circumstances seem to have been entirely overlooked by every Statesman, and Philosopher, in their reasonings on that point.

Whatever adds therefore to the rapidity of the circulating medium, or takes off from the specific value of any object to be represented, is in effect the same as if a greater quan-

tity of money were produced, for a less number of objects were to be represented, and *vice versa*.

From these combined circumstances, naturally arises the rate of interest, or price of money; and no human laws can possibly alter it in the smallest degree.

It becomes, therefore, not only an act of injustice, but even impolitic in Government, to fix it in any manner whatever, because every person has a right to sell his money, as well as his estate, or house, for whatever, from the situation of things, he can obtain for it; and, money being a moveable property, the proprietor can always contrive to send it to those countries where a better price is to be obtained, if he should be obstructed at home in his natural rights.

The most material principle, in the security of all possessions, is certainly founded on this freedom to make the most of every kind of property; and the reasoning of a moralist can no ways controvert it, as the principles of money, and the principles of morality, have no sort of affinity with one another, whatever Philosophers may pretend to have discovered in the vicious tendency of money, as the engine of corruption; which corruption equally existed, by means of all other property, before the introduction of gold and silver.

Laws, which limit the interest of money, will also not be obeyed, if contrary to the natural situation of things, and will be easily evaded by means of premiums privately given.

Government itself evaded the ex-

isting laws in raising money for the public service during the last war, while a Court of Equity thought itself obliged, at that time, to sanction the breach of a money-contract between man and man, because the law would not permit money to be borrowed at the rate of interest then existing (above 5 pr. ct.) for the purpose of paying off a mortgage, which had been granted at a lower rate, on condition of being redeemed at a stipulated time.

It is impossible to conceive any thing more unjust, or impolitic, than this mode of proceeding; first, in preventing any individual from borrowing money at any rate he pleases; and, secondly, in favoring a breach of contract, by not granting a foreclosure on a mortgaged estate.

The proprietor of money is cer-

mainly entitled to high interest, whenever it is obtainable, if on lending it at low interest, he stipulates at what time his right of being repaid is to take place; while it is evident, on the contrary, that whoever has occasion for the use of money, and has the advantage of low interest, when money is plentiful, cannot complain of the necessity he is under of borrowing at high interest, when money is scarce.

The fundamental error in this business, consists in the having enacted a positive and invariable law against what is in its nature relative and variable; and the futility of this law is evident from the facility of evading it.

The evil, however, that has arisen from the decisions of the Court of Chancery, is a discouragement to all loans on mortgage, because it is now

upon record, that a court of justice will not support a money-lender in his just and natural rights.

The pleas urged of the low interest having been regularly paid, and of the hardship of being unable to borrow money at the rate allowed by law, are unworthy of a moment's consideration, since this law can be evaded, and since low or indeed any interest, cannot be the just price for a property, the capital of which the proprietor has at that time by his contract a right to claim.

Laws for the protection of Minors, and for the conduct of Executors, and Tutors, are, on the contrary, founded in policy and justice ; and may be effectual, without any limitation of interest, or any violation of natural principles.

In order, then, to point out the principles by which the specific value of all objects in money is governed, I shall begin by stating, that all mankind agree in exchanging money for other property, of a nature to retain an annual product on such terms as will procure an income adequate, upon due consideration of all circumstances, to the existing rate of interest, as produced by a relative plenty or scarcity of money.

The productive power of money, or the rate of interest, is consequently become the standard price, by which all other capitals are exchanged against it.

It will also be found to be the regulator of the price, due to the produce of all such capitals as are not limited in their extent by nature.

These two points contain the great

secret of the operations of money, in fixing the price of all things; and I must therefore claim the utmost attention, on the part of my Readers, to the following very material explanation of the process to which they give rise.

With regard to the first circumstance of the rate of interest being the competition-price, by which other capitals are exchanged, it will be easily understood, when I state that, if interest is about 4 pr. ct. 25 years purchase of the stated income of a productive property (such as public funds, &c.) is the fair relative value, at which such property might be obtained; and, if interest is about 5 pr. ct. 20 years purchase would become that value, and so on progressively.

I do not, indeed, mean to assert,

by this position, that all capitals, whether public funds, houses or land, &c. &c. should give the same degree of income as money will give, when lent on simple security, because each property may have qualities which are peculiar to itself, and be consequently subject to great variation in price.

It may also not be improper to remark, that the rate of interest is at no time fixed to any particular point, but is subject to numberless gradations, as well as constant variations in the average price.

These gradations arise from the collateral circumstances of trouble and risk attending the receipt of annual income, the degree of security, and term of possessing the object exchanged.

It is therefore improper to state, at any time, a fixed rate of interest, as it

has various prices, in proportion to the quality of the object obtained in return for money; and can only be said to run from 3 to $3\frac{1}{2}$ a 4 pr. ct. or from 4 to $4\frac{1}{2}$ a 5 pr. ct. and so on.

I can however affirm, that every gradation has a connexion with the average rate of interest; and that, if certain circumstances produced, for instance, a difference on a particular income of $\frac{1}{2}$ pr. ct. either higher or lower than the average rate of $3\frac{1}{2}$ pr. ct. when interest was at that price, there would, on the principles of equity and relative value, arise on that same income a difference of $\frac{1}{2}$ pr. ct. either higher or lower than the average rate of interest, supposing such average price to rise to $5\frac{1}{2}$ pr. ct.; that is to say, that the point of variation must be in unison with the average scale, provided nothing should intervene to affect *partially* that particular income.

From what I have said respecting the acquisition of property at 25 or 20 years purchase of its income, in the case of interest being at 4 or at 5 pr. ct. it is to be inferred, that the capital rises or falls, in a kind of *inverse* ratio to the rise or fall of interest, that is to say, that a £100 rent in perpetuity ought to sell for £2500 sterl. when interest is about 4 pr. cent. and for £2000 sterl. only, when interest is at 5 pr. ct.; thus retaining the income at the very same nominal value as before.

This is no doubt the process of nature with respect to all fixed and immutable incomes in money; but incomes arising from industry, are of so different a nature, that those principles do not apply: these incomes will, on the contrary, appear to be regulated by the rate of interest in a direct ratio, that is to say, that their money va-

the will be either higher or lower, according as interest may rise or fall.

An examination into the component parts of all estates or capitals (money excepted) will evidently prove this point, by shewing of what they consist, and how they may be multiplied or diminished by a disproportion of value in some of their parts, with respect to the rate of interest.

It will also explain, in what manner this augmentation or diminution in their quantity, will reduce or increase their nominal value in money, as also that of their produce, called Rents.

All estates or capitals, exchangeable for money, are composed of land, annually and perpetually producing; of productions of land, either producing again, or only useful for a certain

time ; and of labour, as performed by animals or man.

Every production of industry is therefore an income from some capital, held either in perpetuity, or for a limited time, or on a life-rent.

The possession of land may be considered as a perpetuity ; its productions, which reproduce, or are found useful in building, and in manufactures, &c. must perish in a certain time, and the value of labour is a life-rent, by being the income for supporting animal existence.

Land, then, taken abstractedly from the other parts of capital, is subject to the competition of its quantity, against the relative plenty or scarcity of money ; that is to say, when all the land of a given country is cultivated to the highest degree, there can be

the principle to counteract its competition-value relative to money; and should interest of money fall, in that state of things, from 5 to 4 per cent. per annum, a £100 rent, which in one case would sell for £2000 sterling, would, in the other case, resell for £2500 sterl.

While new ground, however, remains to be cultivated, or that ground which is already in a state of cultivation, can be improved by labour and other materials, there must necessarily arise a counteracting cause to the proportional increase in the money-price of land, corresponding to the diminished rate of interest; in the first place, because the new ground comes in competition with the old; and in the second place, because the addition of materials and labour makes the old ground more productive, which is in effect equal to an increased quantity of land.

But in admitting, even for argument's sake, that the full value should be given for the land, in proportion to the rate of interest, there can be no necessity that the rent should rise also, in order to do justice to all parties, since the money paid for the land would still retain its proportion of income relative to the rent of money.

The long period, indeed, for which leases are held, puts a general change in the old established rents entirely out of the question, though new leases might admit of variation.

In order to explain these principles more fully, I will suppose, that an uncultivated spot of ground would, if assisted by labour, and other materials, produce what would sell for £ 70 sterl. annually, but that £ 50 sterl. only of that produce could be attributed to its natural powers.

If the full value, then, of the natural productive power of this piece of land, giving £50 sterl. annually, is £1000 sterl. when interest is about 5 pr. cent. there would certainly be no further encouragement to cultivate that ground, if the proprietor insisted on obtaining £1250 sterl. in case interest should have fallen to about 4 pr. cent.

A money-holder would, however, be well pleased to give £1150 sterl. if interest fell to 4 pr. cent, as a £50 rent would return to him in that case 4 $\frac{1}{2}$ pr. cent. interest for his money; and should the competition arising from an increased quantity of produce, lower the price of it, and force him ultimately to lower his rent (suppose to £48) he would still retain more than 4 pr. cent. interest for the money, which he had employed in the purchase.

This argument is nowise weakened by

supposing the full value of £1250 sterl. to be given for a £50 annual rent, which might be immutable for a great number of years, as the leaseholder remains in that case exposed to the diminished money-value of the produce, from its quantity being increased; nor will it make any difference, if the original proprietor should prefer the cultivation to the sale of the new ground, as he thereby puts himself into the situation of a money-holder.

It appears then, that land, considered by itself, will acquire an additional nominal value, in consequence of a relative increase of money, though not in the full proportion to that increase; but that the rent of that land which belongs to its natural powers of annual production, has a tendency to diminish in price, not only in conformity to the diminished rate of income arising from money, but also in consequence of the quantity of

other rents, which will be continually increasing till the whole country be cultivated to the highest degree.

If this were not the case, we should have very great reason for considering the introduction of representative signs as injurious to the happiness of society, by perpetually increasing the nominal value of their wants, instead of multiplying their comforts; and the public at large would then have more cause for censuring, than for applauding, the conduct of those Statesmen who, by commercial treaties, or any other means, are constantly aiming at acquiring a greater balance in money than the State had before obtained in its general transactions with other nations.

The second component part of all capitals, or estates, as consisting of natural productions, has by implication been already fully explained; for those productions constitute, in fact, the rents

of land, and by multiplying the one or the other, their money-value will naturally diminish, without doing any injury whatever to the proprietors; in the first place, because they still remain in unison with the diminished rent of the general representative sign; and, secondly, because every consumer (including the proprietors themselves) will find his daily wants of natural produce more cheaply supplied.

It becomes apparent, from these deductions, that, by increasing either the quantity or the velocity of the circulating medium, an increased mass of natural productions and artificial labour is promoted; and that those individuals who are exposed to a diminution in the money-value of their incomes, by this superabundant quantity, are at the same time fully compensated by the diminution in their annual expences.

This reflexion may, perhaps, lead mankind to contemplate these characteristics of money in a more favorable point of view, than they have hitherto done, and particularly as they cannot controvert a self-evident proposition relative to its powers; which is, that, by increasing such mediums as are acknowledged to facilitate and extend industry, a correspondent progress must naturally ensue, if the country be capable of improvement.

I come now to the last component part of all estates, called Labour, as performed by animals or man, and as regulated in its money-value by the price of whatever may be necessary for their support, as well as that of their helpless offspring.

Animal life is prone to increase, wherever the means of preserving it are to be obtained, and the price of labour is

generally something above what is immediately necessary for subsistence.

The proprietor of the animal requires some hire for the use of his property, independent of what he must pay for his food; and man requires some little savings from his labour, for the future exigencies of his family.

Should the necessities of life be therefore reduced in their money-value, on account of a decrease in the value of *rents*, and of *natural* produce arising from the causes above stated, a competition amongst the labourers, for procuring only as much as might be necessary for their food, cloathing, and conveniences, as well as for their reasonable little savings, would naturally reduce the price of their hire.

The price of labour being of course a necessary and material part of the

money-value of all *general* productions of nature, from which new capitals or estates are constructed, we can find no difficulty in ascertaining, that such part receives a sensible diminution in price from a decrease in the money-value of the other part, called *rents* or *natural* produce.

It is also very evident, that rents and labour form a very considerable part of all capitals, and that their tendency to decrease in money-value must counteract the consequences of the increasing value of the other part, called Land, which appears to take place when money becomes more plentiful.

Capitals have therefore, upon the whole, when they are connected with or arise in any degree from industrious incomes or natural productions, the same tendency to fall in money-value, when interest falls, as those incomes or pro-

ductions have; and these consequences are considerably increased by the action and re-action between the capital and the income, which seem necessarily and inevitably linked together by nature, and influence one another, for the following reasons.

The lower nominal value of the capital requires less income in money, besides the deduction which we suppose to have before taken place in consequence of the decline of the rate of interest; and this additional diminution of income has again a tendency to diminish the nominal value of the capital, and so on repeatedly, though in a less degree each time, until the decrease becomes unworthy of further attention.

In proceeding further to state the effects produced on the price of manufactures, by a greater plenty of money, or a lower rate of interest, it is not only

necessary to take into consideration the diminished value of the raw materials, as well as of labour, from the very powerful causes above stated, but also that the capital in money, employed for carrying the business into effect, or purchasing the raw materials, will not only be less, but even procured at a cheaper rate.

Suppose, for instance, that a manufacturer employs in his trade a capital of £100,000 sterling, when interest is at 5 pr. cent, he will naturally expect it to produce him 9 or 10 pr. cent. annually, which is of course to be drawn out of the price of his merchandize.

If interest, then, fell to about 4 pr. ct. and he continued to receive the same price for his merchandize, a threefold advantage would immediately accrue to him; first, from the diminution in the money-value of the raw materials, and of labour; secondly, from their requiring

less capital than before; and, thirdly, from his obtaining that smaller capital at a lower rate of interest. All these circumstances would carry his profits much beyond all principles of relative value; and although I by no means deny his complete right to obtain as much as he can, yet it is obvious that, if the consumers indulged him in his demands, he would be the very first to think of extending his profitable business; and if indolence, or any other motive, prevented him from doing it, his neighbours would not fail to begin the same trade in opposition to him; so that a sufficient stock would at last be produced, and the price of his merchandize lowered to a scale of value, more consistent with the effects naturally resulting from a diminished rate of interest.

If, on the contrary, a still higher price than when interest was at 4 per cent. should be given for his merchandize, a

very extensive encouragement to the progress of manufactures would inevitably ensue, and the greater abundance must necessarily produce the consequences I have been pointing out, viz. a reduction in price, more or less bordering on the diminution of interest.

I flatter myself, that I have now established the two leading principles, which I have been endeavouring to prove, viz. that the natural relative value of all things is regulated, through circuitous operations, by the rate of interest; and that the encouragement to further industry arises from the market-price of its productions being higher than the current rate of interest absolutely demands, or than the principle of Equivalents will justify.

It is however necessary for me to state, that there are accidental and local bounds to probable and natural ef-

fects, as well as particular deviations from general principles, to which all nature, from its great complication, is subject; but that these accidental bounds, and particular deviations, are of no material consequence in the general effects; and should therefore not be kept in view by an enlightened mind; because the danger of obscuring the first and general principles would then become as great to the present and future ages, as has evidently been the case with the past.

But, in order to remove every doubt which might still remain in the breasts of my Readers, I shall examine the consequences to which the industrious exertions of individuals are exposed in the taking place of a relatively greater scarcity of money; which will form the counterpart of what has been stated with respect to the effects of a relatively greater

plenty of money, and cannot fail of producing the completest possible conviction respecting the truth both of the one and the other.

Let us suppose, then, that interest of money rises from 4 to 5 per cent. and that every landholder loses in the capital value of his estate in the proportion of 25 to 20 years purchase, or of $\frac{1}{5}$ of its former amount; that is to say, that upon an income of £50 sterl. pr. annum, he loses £250 sterl. out of the £1250 sterl. which was the amount of its former capital value.

There will, in that case, exist no inducement whatever to buy or cultivate new ground, because the old will not only have lost considerably in its value, but will also, from the circumstance of its being already in a state of cultivation, be universally preferred.

If we calculate further, the landholder's chances of supporting, at the former value, those rents which are not fixed for any distant period, we shall find, that the scarcity of money will not admit of so many purchasers of produce at the old prices, and that the market-price of natural produce may on that account immediately fall, notwithstanding that it reasonably might, and indeed ought, to lay claim to an increase, if the value of the capital was not lowered in such a degree as to correspond with the increased rate of interest.

As this decrease of capital value cannot on all occasions ensue, a still greater discouragement to cultivation must take place, until rents not only return to their old price, but even increase in their value (by a *neglected cultivation*) in conformity to the princi-

ple. of an equivalent increase from money; since otherwise they would not be renewed.

Nor can this advance in the price of rents, nor even the power of supporting them at their former rates, exist under the circumstance of a diminished quantity of representative signs; without a diminution in the mass of general productions, from its being mathematically impossible that a lesser number should represent a greater. Suppose, for instance, that 100 guineas represented 100 objects at a guinea each, 80 guineas certainly could not represent the same number at the same value; and therefore it follows, that a diminution either in the quantity of objects, or in their value, must take place, in order to restore the powers of representation.

It may perhaps be thought, that an additional motion in the representative

signs would supply the deficiency in their quantity, but unfortunately there can exist no motive for such increased activity, excepting in the purchase of capitals, and that only to a small degree, on account of the increased rate of interest, as stated above.

If the accelerated movement of the representative signs became equal, or nearly so, in its effects, to the loss sustained in their quantity, the interest would remain at the same rate as before, and no change of consequence would be perceptible, either in the price or quantity of general productions.

It must be observed also, that the diminished value of many capitals (producing fixed incomes), which takes place on a rise of the interest of money, will not sufficiently relieve the representation of money, so as to render it possible that the annual produce of other capi-

tals should be represented at the same price as before; because the representation of capitals is only a small part of the duty of representative signs, and is confined either to the transactions of those persons who are exchanging the nature of their property, or to new acquisitions of capital arising from general savings; while the representation of incomes calls for a daily transfer, to an immense amount, amongst producers and consumers of all articles whatever.

It should also be further recollected, that capitals consist in part of productions, and that such productions will not admit of being so much reduced in price, as to correspond, while in the form of capital, with the increased rate of interest, because they are ultimately not to be procured, unless purchased at their just value considered as incomes; notwithstanding that land in itself might be subject to the full effects of competition

between its quantity, and the relative plenty or scarcity of money.

The bad effects, therefore, which arise in any society from a diminution of its representative signs, are not only very conspicuous in the neglected cultivation of its land, as well as in the diminished quantity of its annual industry, but ultimately in the increased price of annual produce necessary for the support of animal life.

This circumstance must naturally affect the price of labour; and the increased price of labour (as forming a component part in all general productions) will again re-act, and increase the price of annual produce; they both affect each other repeatedly (though in a smaller degree each time), to the very great disadvantage of the whole community.

The population of a country must

then inevitably diminish ; and although the reduced number of individuals may have nominally higher rents from money, and higher wages from industry, yet their expenditure will unfortunately be increased in the same degree.

If we trace also the effects of higher interest of money on the price of manufactures, we shall find, that the capital employed must not only be increased, in order to purchase the raw materials, and labour, at advanced prices, but that a higher annual premium must be paid for the use of money, and that this threefold accumulated charge must be made good, by the higher price of the manufactured goods.

We shall also perceive, that since the higher wages of the labourer, the advanced price of raw materials, the increased interest of money, and extension of capital, together with all their actions

and re-actions, must ultimately form a great accumulation of expence to be employed in producing only the same quantity of goods as before, it would become impossible for the manufacturer to continue his business, (unless prices were to rise in proportion to those increased charges) without a compleat sacrifice of his rights; and it must in that case be more for his interest to content himself with the higher income, obtainable from money, and to divest himself of all trouble and risk attending the prosecution of business.

Whichever way, therefore, this subject is considered, the general result will always correspond with the recapitulation, which I shall here make in as few words as the nature of the discussion will admit.

Self-interest must, in general, be

considered as the *primum mobile* of all human industry.

This self-interest was originally gratified by the maintenance of a proper relative value between all objects founded on those principles which have been stated in the preceding Chapter: but it is now excited by the preservation of a superior proportion in the money-value of objects, either according to the rate of interest, if the object be a production, or according to its competition-value, as opposed to money; if it be land, mental labour, or any other object, the quantity of which is limited by nature.

These distinctions are indeed so much blended together, through a variety of circuitous operations, that the proportion of their separate effects, or the preponderance of either, has never been properly traced, or ascertained, so as to determine the general result, whenever

money becomes either scarcer or more plentiful.

It appears, however, from the foregoing investigation, that productions, arising either from nature or from corporeal labour, form the most material part of all capitals, as well as of all objects of general use; and although the price of land, mental labour, or any other object, whose quantity is limited by nature, will be influenced by competition arising from the relative plenty or scarcity of money; yet it is very evident, that this competition does not, upon the whole, counteract the general principle, that a diminished rate of interest produces a diminution in the price of almost every object, as well as an increase in their quantity, and, *per contra*, that an increased rate of interest produces an augmentation in the price of those objects, with a decrease in their quantity.

This increase or decrease in the quantity of industry, from an increase or decrease of that medium, which was introduced for the purpose of facilitating, and of course extending, the mass of industry on a given spot of ground, appears indeed to be self-evident, because it naturally follows, that, by increasing or diminishing the powers of an engine, there must also arise an increase or decrease in its general effect.

The circuitous operations of money have, indeed, hitherto so much puzzled the human understanding, that this self-evident proposition has been entirely overlooked: I flatter myself, however, that it will be soon generally acknowledged, and that the following axioms will be found to contain the whole mystery of the proceedings of money, with respect to increasing the quantity of industry, and diminishing its price, whenever a relatively greater plenty of

money occasions a diminution of interest, and *vice versa*.

A country capable of improvement in agriculture, in industry, or in population, and enjoying such laws as will secure to individuals their property, must inevitably receive those improvements through the medium of a diminished rate of interest, whenever an increased quantity of the representative signs shall have been obtained.

The market-price of industry becomes then superior to what the diminished income from money demands; and the self-interest of man will of course prompt him to extend his industry, until its increase produces the effect of lowering its price to a juster proportion (on the principles of relative value, or of an equivalent) with the income from money.

If the superabundance of money

should induce individuals to purchase any object at a higher rate than they paid (previous to the diminution of interest), this active principle of self-interest would be still more excited, and the consequences above-mentioned must therefore ultimately take place.

A diminution in the price of articles of general use, produces also the same good effects on the relative plenty of money, as a further increase of representative signs; and thus creates a powerful and advantageous action and re-action between the lower price of those things, and the lower interest arising from the greater relative plenty of money; it having already been proved, that the price of one part of general produce acts and re-acts upon the other part.

Improvements in agriculture or manufactures, by means of mechanism, chymistry, &c. or in the mode of conveying

any thing with less labour from one place to another, produce also the effect of lowering more or less the price of all articles, even though these improvements should be immediately confined to one object, or even to a part of an object of general use; and they thus create a still greater plenty of money, without even the introduction of an additional quantity of representative signs; to which may be further added, the consequences of each part acting and re-acting upon the other, so as to produce a general and sensible diminution in price upon the whole mass.

If we trace the reverse of these operations, (as far as concerns the increase of interest) on money becoming relatively scarcer, we are immediately led to perceive, that the income from money becomes higher, in proportion, than the existing price of industry gives, and that a discouragement will ensue,

until the quantity of produce is *unfortunately* reduced to such a degree, as to admit of purchasers at a price proportionate to the increase of income arising from money.

This effect of a diminution in the quantity of industry would be still more considerable, if, in consequence of the scarcity of money, a still less price should be paid for those productions of industry, than was before paid for them; and a further evil would arise from the principle, according to which all the component parts of industry act and re-act upon each other, while the higher money-value of all objects must also occasion a relatively greater scarcity of money, without any further diminution in the number of representative signs.

To sum up the whole : it appears, that a greater plenty of money, by lowering interest, becomes a very active and

powerful engine in lowering the price and increasing the quantity of industry, and of population on a given spot, if well governed, and capable of improvement; and that meliorations, which the ingenuity of man is for ever contriving in agriculture, in manufactures, in chymistry, and in the mode of conveying goods from one place to another, produce also the effects of lowering the price of industry, and thereby occasion a further relatively greater plenty of money, with all its happy consequences, without the introduction of an increased quantity of representative signs.

It appears also, *per contra*, that a greater scarcity of money, and consequent increase of interest, is an active and powerful engine in augmenting the price and diminishing the quantity of industry and of population; and although no arts of improvement are likely to be lost, and thus occasion the reverse of what

the invention of those arts had produced, yet something analogous (in effect at least) has arisen in the political administration of all societies, by the introduction of money-taxes, which has produced much confusion in several States, and which will be fatal to many more, if those who govern the different empires in Europe, do not lay aside the prejudices of their education, and abandon the unimportant discussions of mere forms of finance, to make way for the thorough investigation of its principles, as well as of the baneful effects of taxes.

These effects, together with the means of providing against them, will be fully developed in the succeeding Chapters.

CHAPTER III.

On the Effects of Taxation in Money.

THE preceding Chapters will, I hope, have sufficiently explained the principles of the relative value which so evidently subsists between every object and money, as well as the general effects which arise from a relative plenty or scarcity of money, independent of those which may further accrue from taxation.

An examination into the nature and effects of money-taxes, will, however, throw a new light on every system of public finance, which has hitherto been brought forward, and probably urge

either the present or the future generation to consider, if there be not a more consistent plan of relief to be traced, than that of increasing the evil of taxation by creating a sinking fund.

I have already stated, that when taxes were levied in kind, and that all things were exchanged against each other, no inconvenience whatever arose to society at large, as every man gave a proportion of what his labour produced.

It induced him, indeed, to be more industrious, as otherwise the surplus might not be sufficient, either for his immediate wants, or for his plans of annual saving.

This motive, it must be owned, continues still to operate on the mind of man, whenever any new tax is levied in money; but the uncertainty of his obtaining an adequate number of addi-

tional signs to represent his additional labour, is perpetually thwarting his ultimate views ; for, without this increased power of representation, his additional labour is not only lost, but even a part of his ordinary efforts is positively absorbed by the representation of the tax; and from thence results the inevitable necessity of selling his extraordinary and ordinary labour for a less sum, than he before obtained for the ordinary labour only.

To prove this, we need only analyse the nature and effects of a tax, whether it be considered in the light of interest on money, raised for the public service, or as an annual expenditure for the peace-establishment.

If considered as interest on money borrowed by the public, it is then a part of the money-value of an annual produce, demanded by the public in

order to pay that interest; and requires of course the annual reproduction of a new money-capital, added to that which was previously necessary towards producing the object taxed.

This being the case, it is impossible for that object to be produced at the same price as before; neither could the person who gave his money, be secured in his annual income, if this additional value (equal to the tax) was not absolutely linked to the object, solely and independently for his use, as the interest of the capital he had furnished.

It would be ridiculous to urge, that the producer of the object taxed could relinquish a part of the pre-existing value for the benefit of the money-lender, as that idea would militate against the principle of a just value being due to all things, so fully established in the

preceding Chapters; and experience sufficiently proves, that the producer always exacts more than the tax levied on him; which will be further explained on tracing the progress of the evil.

If we consider also the tax as a provision for the peace-establishment, it then becomes equally a part of the money-value of an annual produce demanded by the State for the purpose of purchasing some other income or production, annually necessary for its support. Should therefore the object taxed not be immediately raised, in its nominal value, in a superior degree even to the part required, the reproduction of it must soon cease, and the whole system of taxation would in this case, as well as when intended to furnish an annual interest to the money-lender, become a mere fiction.

This matter may be brought very

clearly to the comprehension of any man; by supposing the tax to be as two, while the former cost of the object, considered as an income from a capital, should also have been as two.

To continue the object, in that case, at its former price, must annihilate either the first cost, or the tax, to the detriment either of the producer, or of the public service.

The stating this case in a less strong degree, would by no means alter the principle, or be less intelligible to enlightened minds; neither is it necessary to add, that the contrary effect must be produced, whenever a tax is taken off, as it diminishes the capital employed in producing the object relieved, whether such tax existed for interest on money raised, or was levied to exchange against some other produce, wanted annually by the State.

I shall now proceed to state the aggravation of the evil complained of; first, by observing, that the producer of the object taxed, claims a profit on the tax, in proportion to the income he receives from the other capitals employed in his business; and, secondly, by recurring to the principle in which it has been shewn that the additional price of one production acts immediately upon the price of others, and that these augmentations of price re-act afterwards upon each other, particularly if the object taxed should be necessary to human existence,

This principle acts so imperceptibly, yet at the same time so powerfully, in raising the price of all objects, that it may not be unnecessary to state a case in point, by supposing the materials of which cloathing is made, to be taxed, at the very same time with the

materials from which shoes are manufactured.

The taylor makes the shoemaker pay dearer for his cloaths, and the shoemaker equally makes the taylor pay dearer for his shoes; of course both feel themselves taxed by each other in their wearing apparel, considerably beyond what Government levied*, and both have again recourse to raising their price, though in a less degree each time, acting and re-acting in this manner upon the wants of each other, until the degree of increasing price becomes so small, as not to be worthy of further notice.

It may be asked, what mode of taxation produces the smallest degree of prejudice of the sort above described?

* Not alone as a profit on the tax, but also on account of a necessary article being increased in price, although made by themselves.

To this it can only be answered, that taxes laid on luxuries do less mischief in increasing the price of all things, than those laid on the necessities of life; but that all capitation-taxes, or whatever even may be classed under that denomination, come nearer to the original plan of taking the tax in kind, than any other mode that can be adopted; because it then levies a part of each person's profits, and levies it of course upon the last stage of their productions, which considerably diminishes the action and re-action of one thing upon another.

It must however be allowed, that no tax (which can be denominated a capitation) will ever fall impartially and according to the faculty of each individual, which occasions its being generally reprobated; but as partial evil often produces general good, Nations would do well to give the preference

to that system of taxation, because (however partially the advantages might be distributed) every individual would reap some benefit by it, and a very considerable increase of prosperity would ensue to the community at large.

If we take into consideration the multitude of taxes imposed in Great Britain within this century, and the accumulated evil consequences which have ensued from them, with respect to the price of all articles, we shall be nowise at a loss to account for the great increase of expence to which all ranks of people are exposed.

We may, on the contrary, be surprised, that Great Britain should have continued yearly to increase in her population and industry, under such an accumulating oppression, and that many articles of general use should still be obtainable at a moderate price.

This will, however, not appear so extraordinary, when we recur to the good effects of decreasing interest on money, and of improvements in cultivation, in conveyance from place to place, in mechanism, and in chemistry, with all their favorable actions and re-actions, so fully developed in the preceding Pages.

A great part of the annual importations of gold and silver from the mines of South America, are naturally drawn into Great Britain from Spain and Portugal, either directly or circuitously, from a *general balance* due to trade with foreign nations, or as the purchase-money of our *public funds*, in which foreigners think it advisable to lay out a part of their annual savings.

This increase of representative signs has of course provided, not only for the increasing mass of industry, which has annually arisen, but also for the increased prices produced by taxation;

while those increased prices have, on the other hand, been considerably checked by the good effects of the lower rate of interest, as well as by the daily improvements in cultivation, in conveyance from place to place, in mechanism and in chemistry, which have tended to the production of many objects with much less materials and labour.

These circumstances, however, will not justify any unnecessary extension in the number of taxes, because it produces the inevitable consequence of diminishing the produce of pre-existing taxes, or at least of checking their natural increase, and of keeping the price of all objects higher than they would otherwise have been: for the increasing quantity of representative signs is not allowed by such aggravation to produce its full effect in the reduction of interest, in the increase of industry, and in the decrease of its price.

It may be urged that, notwithstanding all my assertions respecting the accumulated evils of taxation, our progress in industry has been astonishing since the year 1785, while the accumulation of taxes since the year 1783 is almost as great as during any other period.

The answer to this is, that the increase of paper-money has also been greater during that time, than any former period: but how far that system of increasing representative signs was constructed upon proper principles, the commercial disasters of the year 1793, will sufficiently explain.

The unfortunate situation of France has, however, thrown a greater quantity of gold and silver into other countries; and we may therefore hope, that a part of the loss lately sustained by the annihilation of a great mass of paper-money,

will be supplied in bullion from abroad, and prevent, in some degree, the bad effects which Great Britain had to apprehend in her future revenue, from this diminution in her representative signs.

As the great increase of money, with its attendant good consequences on the revenue since the year 1784, has been improperly attributed to the wisdom of Administration, and that the bad effects of its decrease will now be equally attributed, with as little propriety, solely to the war with France*, it becomes

* Notwithstanding that large sums have been expended by our armies abroad, yet a balance is still coming into Great Britain, by such expenditure being returned *on loan* in the purchase of *Stock*. After the peace of 1783, the contrary happened, as foreigners called for their money, by selling out of the *funds*, which threatened the industry and the revenues of Great Britain with ruin, until the revived importation of gold and silver from Mexico and Peru spread its benign influence over Europe, and enabled foreigners to send back the sums previously wanted.

necessary for me to state, that the whole money-system is in a manner entirely foreign to the administration of public affairs; and that its particular situation, respecting *quantity*, must be regulated by the interest and operations of individuals, as well as by their confidence in one another; which last is very often carried beyond all bounds in Great Britain, and after producing conspicuous advantages to the community at large, ends in great individual distress, and diminishes for some time the public revenue.

But if Ministers have no right to interfere in forcing a greater importation of gold and silver, as well as in increasing or diminishing the confidence between man and man, on which paper-money is principally founded, and that they must submit to every temporary evil that arises from the want of those additional signs in coin, or from a diminution of that paper-money from which

their operations had been deriving considerable advantages, they are certainly bound to examine with attention, and to promote with becoming zeal, any plan which is found to produce the permanent and solid advantages of diminishing the price and extending the mass of industry, without the assistance even of additional representative signs.

The first step towards this object can only be founded on their dereliction of every idea of a sinking-fund, which so evidently tends to increase the annual expences of the Public, as well as of individuals, and checks the growing mass of industry.

The progressive and accumulating bad consequences of both these circumstances, are so very conspicuous, that it will almost be needless to add, that no future good, from *ultimately* taking off taxes, equal to *the sinking fund*, as well

as to *the amount of interest redeemed*, can compensate for those evils.

The future repeal of the sinking-fund taxes certainly cannot be considered as a benefit; since it is obvious that they might have been spared in the first instance; and for *the interest redeemed*, we have in return a much greater annual expenditure, with its permanent consequences*, and a less mass of industry, as well as a suspension in its powers of progressive and compound increase, during the term of this fatal operation.

Nothing can be alledged in its favour, as the advantages proposed are rendered nugatory from the immediate and permanent effects of taxes in money; and it may not be improper also to recollect, that if the unnecessary taxes

* Greater loans during war.

check the progress of the necessary ones, the taking off those taxes, which now produce near *two millions* pr. annum to the sinking-fund, must inevitably make the other taxes more productive, and give immediately, by *natural* means, that financial resource, and powerful income to the State, which is now cruelly, but in vain, attempted by a sinking-fund.

It appears, then, that the bad consequences which arise from taxes in money are fourfold: first, by raising the nominal value of the object taxed; secondly, by the action and re-action of the increased price of that object upon the price of others of general use; thirdly, by those combined effects of increased nominal value on all objects inevitably absorbing a greater quantity of the existing representative signs, which must create a relatively greater scarcity; and, fourthly and lastly, by a further action and re-action between the interest

of money and the price of all objects, as exemplified by the above-mentioned operations of the taylor and the shoe-maker.

It is evident also, that no human regulations can possibly alter these proceedings of nature, which cannot fail to diminish the existing mass of industry and population.

The counteraction which may arise from the circumstances of an influx of money, or of improvements of any sort, must be considered as a distinct operation, producing different effects, which would have been fully developed, if other destructive principles had not taken place at the same time.

Pernicious principles have, however, but too often been permitted to claim merit from a mitigation of evil, arising in truth from other highly salutary cau-

ses; for we must keep in recollection, that the effect is exactly the same, whether, by means of the adoption of a false system, the existing mass of industry is *positively* diminished, and the price of all things *really* increased; or whether such effects are only *negatively* produced, by the absorption of what would otherwise have created a greater increase of that industry, and a decrease in its price.

To be consistent, then, we must also admit, that the plan of taking off money-taxes will produce fourfold good consequences; first, by diminishing the nominal value of the object relieved; secondly, by the action and re-action of the diminished price of that object upon others of general use; thirdly, by these combined good effects of decreased nominal value on all objects demanding a less quantity of the existing representative signs, by which means a greater

plenty of money is produced ; and, fourthly and lastly, by the action and re-action between interest of money and the price of all objects, which must considerably reduce the price of both, and inevitably augment the general mass of industry and population.

A counteraction to these happy consequences may indeed arise from some other circumstances ; such as an exportation of the metals, annihilation of paper-money, or partial commotions in the Empire : but it will be some consolation in that case to think, that the effect is either annihilated or mitigated by the salutary consequences which arise from taking off taxes.

I am persuaded, that any attempt to establish other principles, respecting the operation of money-taxes, must inevitably tend to every sort of inconsistency ; and it seems to me that this would be particularly the case with re-

spect to any justification that might be set up in favour of sinking-fund taxes. For if the person maintaining this doctrine, should be of opinion that money-taxes do no mischief, it is obvious that he could have no motive for trying to get rid of them; and if he should, on the contrary, allow that some evil arises from such taxes, it would be very difficult for him to shew, that the immediate pressure of this evil, produced by the creation of a sinking-fund, by means of *an excess of taxation*, does not far over-balance any good that this creation may be expected to produce hereafter.

I am, for my part, fully convinced, that a permanent and annually increasing evil of *great magnitude* is generated by *such excess* of taxation, and that the ultimate good, which is supposed to ensue, is perfectly delusive.

Having no power, however, to al-

~~On~~ the present unfortunate system, and seeing the general indifference towards any enquiry into the merits or demerits of it, I can only seriously lament, that neither the wisdom of our ancestors, nor the enlightened understandings of the present age, have sufficiently directed their efforts to the comprehension or to the explanation of this very important subject.

Much has indeed been written on industry, on commerce, and on particular forms of finance and taxation ; but the elementary principles of all these have been misunderstood, and the subject has even been thought unworthy the notice of elevated minds, as well as too speculative to be traced with any degree of accuracy.

How far the suppositions of those who neglect this science, or the errors of those who have mistaken its prin-

ciples, are justifiable, I must leave to my Readers to determine.

The accumulation of taxes, for the purpose of redeeming public annuities, being thus reprobated as ineffectual, and at the same time as cruel and oppressive, I shall probably be accused of destroying every hope of redemption from the great mass of debt with which the nation is burdened; and it therefore becomes me to point out some other remedy.

The following Chapters will, I flatter myself, unfold the *efficient* resources of every State; and shew, by the clearest mathematical demonstration, as well as by the application of established practice, that all public annuities carry naturally (upon the principle of an equivalent value being returned) their *extinction* along with them, whether created for a limited number of years, or grant-

ted in perpetuity, but in that case capable of being redeemed whenever Government can substitute a new creation on more favorable terms for the Public.

My Readers will then perceive, that any attempt to redeem annuities by means of taxes, becomes in fact a *double*, nay even a *triple* reimbursement; and by thus adding gratuitously to the public burthens, produces the very contrary effect to what is intended.

The wonderful financial resources of every State, not yet matured in population and industry, as well as the possibility of rendering indefinite those of an infant State, must naturally arise to our view from an examination of the nature and power of money, combined with those principles of equivalent value, which so evidently form the groundwork of every transaction, or exchange between man and man.

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The particular application of those principles must, however, be more or less regulated by the circumstances of the moment, which will of course produce frequent alterations in the secondary plans of finance, such as the extent of annuities to be granted, the change in their form, and the modification of particular taxes.

The relief to be procured for a country completely matured, must further depend on the additional knowledge of the nature and extent of its public annuities, as well as of its taxes and annual expenditure, to be applied in lightening each by new modifications.

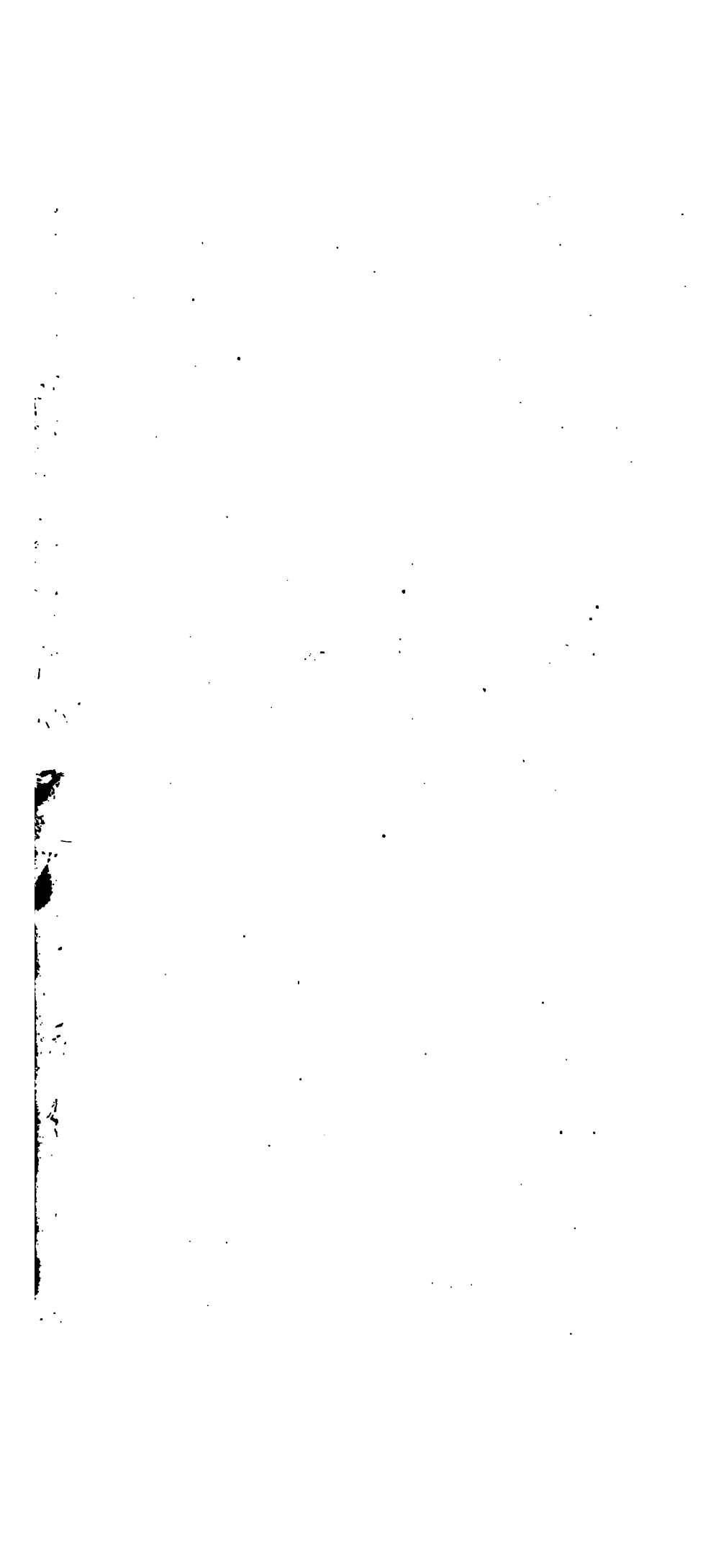
The political existence of such a country may, by those means, be considerably prolonged, although prosperity cannot be expected in any great degree.

END OF THE FIRST PART.

Anno 1794.

THE
DOCTRINE
OF
EQUIVALENTS, &c.

PART II.



CHAPTER IV.

On the Nature and Value of Gold and Silver Coins, and on the Principles of Variation in Foreign Exchanges.

IT has been stated in the preceding Part of this Work, that the durability and the divisibility of the metals, together with the facility of transporting them from one place to another, induced mankind to adopt them as the most convenient representative signs, and that they immediately changed their original comparative value, as objects of use and ornament, to that of a real estate, from their annual reproductive value, called Interest, which may not improperly be

compared to an annual hire for their labour, on account of their active utility in extending industry, and promoting the general good of a whole community.

These metals circulated at first from hand to hand by weight; but as the degree of fineness or purity of the metal was not always easily discovered, it became necessary to simplify the business, by forming them into coins of various denominations, which should contain specific quantities of pure metal.

The expence of this coinage ought naturally, and is in general made, to fall on the national treasury, as the Public obtain many conveniences and advantages towards the extension of their industry by this operation. The diminution of value, which arises from friction, or from clipping, must however fall on the individual possessors, as they

are indemnified for any loss by the first-mentioned depreciation through the interest received for the *use* of it; and the person who clips it can certainly have no right to offer it as a legal tender. It is also necessary to observe, how the ingenuity of man (under the influence of a well-regulated Government) has contrived to extend their powers of representation, without any increase in their quantity.

Public and private Societies, under the denomination of Banks, after acquiring a sufficient degree of the confidence of their fellow-citizens in their probity and in their wealth, have been induced to issue their promissory-notes, for stipulated sums of money, *payable on demand*.

These notes were of course taken in payment; and circulated from hand to hand as money, for which they were

considered as a convenient and solid substitute, and which immediately increased the mass of representative signs. It behoved these Banks, however, to be at all times prepared for the immediate payment of a considerable number of their notes; and the greatest part of the metals, received in return for the paper thus issued, remained therefore locked up, to answer any sudden demand.

The difference between the sum so locked up, and the sum issued in promissory-notes, circulating from hand to hand as money, produces evidently so much increase in the mass of representative signs; and the Banks are indemnified for their expences, and for their trouble, by laying out this difference at annual or monthly interest.

It is impossible to state any proportion of money which ought to be locked up, in order to answer any sudden de-

mand; but it is evident, that the greater this proportion is, the more will the proprietors of such Bank be entitled to the confidence of their fellow-citizens.

Money accounts kept between two individuals, for goods reciprocally delivered, facilitate also exchanges of every kind, without the assistance of any sort of representative signs: but the extent of such facility is naturally very much limited, and resembles, in some degree, the ancient mode of barter, without the great inconvenience and the trouble which attended that system.

Bills of exchange come under the same denomination, and are more extensive in their operations: but we frequently see great disorders arise in commercial affairs by such bills having no other cause of existence, than the mutual convenience of the drawer and acceptor, for raising money upon fictitious

debts, from one to the other, which, in mercantile language, is called a paper circulation.

Foreign bills of exchange are also greatly liable to this charge, although their general foundation, or principle, is the debtor and creditor sides of accounts with foreigners.

The creditor abroad A draws upon his London debtor B, while the foreign debtor C takes the bill in order to send it to his London creditor D, and *vice versa*.

By these means the great mass of foreign accounts is settled, without the interference of money.

The balance, however, which may be still due on one side, and for which no bills are procurable, is sent in the metals, either to or from the foreigners,

at the expence of the debtor. If this exportation of the metals be transacted by an intermediate agent, he grants an equivalent sum in bills, while he takes a profit for his trouble and risk ; and as the Jews transact this sort of business for a very small profit, the mercantile world consider them as the most useful agents in those negociations, for restoring the equilibrium in foreign exchanges.

The balance thus due to or by foreigners, is constantly changing, which of course occasions a constant variation in foreign exchanges.

In stating the further causes of variation in these exchanges, it is necessary to observe, that all nations have a money of account, (sometimes distinct from their coins, so as a pound sterling in England, and a *livre Tournois* in France) and that the Government of each country has at different periods fixed the

quantity of pure silver and of pure gold, which such money of account was to contain.

This is called fixing the standard of money, and applies as much to gold as to silver, because it fixes *invariably* the price of one against the other, when converted into coin; although such legal decision is perfectly inconsistent with the principles of nature, and will in the course of this investigation appear completely nugatory, on account of the perpetual variation in price of one metal against the other.

It shews, however, the incorrectness, and even the fallacy, of Mr. Harris's and Dr. Adam Smith's ideas, that such standard is confined to silver only, and that gold is a mere commodity or object of commerce.

This mistake may have arisen from

their perceiving that the metals very soon lost that price against each other which Government enacted should exist between them in the respective gold and silver coins, when it declared, for instance, that fifteen ounces of pure silver should, when coined, have the same value in pounds, shillings, and pence sterling, as one ounce of pure gold, or that the gold and silver coins of Great Britain should be legal tenders in that or any other proportion.

Such decision of Government might, no doubt, be founded on the then existing relative value of gold with silver, (bought as bullion, or objects of commerce against each other;) but this relative value was perpetually liable to variation, in direct contradiction to this permanent law, respecting what was turned into coin, and became regulated according to the imported quantity and demand

for each metal towards their conversion into plate, ornament, or coin.

Mr. Harris adds further, that silver was more liable to change its value than gold, which is inconsistent with the nature of a relative value, as one object must fall when the other rises, not unlike the operation of two buckets in a well, because gold *per se* can have no price in money, except with relation to silver, and silver *per se*, no price in money, except with relation to gold, although money, which is the general term for both, has a general price, called Interest, or Annual Hire.

It appears extraordinary, that the Legislature did not take into consideration the constant variation in the quantity of each metal imported and exported, as well as in the demand for plate, ornament, and coins, which naturally produced very frequently a change in the

relative price of one against the other; neither did they perceive that the necessary consequence which ensued from this change in price was the sale of the undervalued metal in coin, (melted down privately in a crucible) and the payment of all legal demands in the overvalued metal in coin.

Government, also, could not continue to coin the undervalued metal, or a certain loss would ensue.

It is unnecessary to state the different changes, which the standard of gold and silver has undergone in Great Britain, and I shall therefore confine myself to observing, that $\frac{2}{3}$ parts of the quantity of pure gold, which a guinea contains, is the exact quantity which the law has declared shall exist in our money of account or pound sterling, and that as silver is become dearer, relatively to gold, since the period when the pro-

portion of pure silver metal, which twenty shillings or a pound sterling was to contain, became fixed by law, it has disappeared in coin, (excepting light silver) and our currency is of course stamped a gold and not a silver pound sterling.

There however exists a possibility, that both metals may be above their coinage price.

When a balance, for instance, is to be paid to foreigners, and that silver bullion is too dear, or not procurable to send to foreign markets, gold bullion may then be purchased above its coin-value, to avoid the possibility of incurring the penalty for melting down guineas, in order to pay that balance.

This is, in fact, purchasing so many ounces of pure gold-metal with more ounces of pure gold coin, and can only be considered as a premium of insur-

ance against an evident risk, without which it would be an absurdity.

The right, indeed, which each individual possesses of paying his debts in either metal, takes away the most material inconveniences of the law, which establishes a standard for each metal, and the facility of throwing coin into a hot crucible, without detection, admits of selling the undervalued metal for its full value as bullion.

Any change then, which takes place, by law, in the standard of gold and silver coins, must naturally occasion a variation in the rate of exchange with other countries.

We may suppose, for instance, that if, by a new law, a pound sterling was made to contain as much pure gold as there is now in a guinea, it would become more valuable by one in twenty;

and we should, on that account, receive in exchange five per cent more of the money of account in other countries, because all exchanges in money must be ultimately regulated by the quantity of pure metal which the respective coins of each country contain, and the debasement by alloy is of no use whatever, but, on the contrary, very improper beyond a certain degree, for preventing too much friction, and may be considered as so many folds of paper or linen wrapt about pure gold or silver, in order to conceal what a few hours will always bring to light.

It may be asked, what effect the changing of the standard, or adjudging more or less pure gold and silver to the circulating coins of a country, would have on the internal money-operations of that country?

At first sight, it would seem to pro-

duce a general increase or decrease in the scale of value attached to all things; that is to say, that as all incomes would be proportionably increased or decreased in the quantity of pure metal received, those who gained or suffered thereby, would be equally aggrieved or benefited in their expenditure, according to the increase or decrease of pure gold and silver adjudged to the money of account and respective coins.

This position of a general rise or fall in the value of all things, when compared with pure gold and silver, under the denomination of a Pound Sterling, would also convey the idea, that if the pound sterling was made to contain less pure metal than is actually the case, the different coins, or representative signs, would become more plentiful, and produce the same good consequences as an increased importation of the metals.

But these consequences, however plausible in argument, would not result from it; and it therefore becomes necessary to give further explanations on this subject, as the simplicity of such a plan might otherwise captivate superficial enquirers, and urge Statesmen to very false operations, respecting a material point in political economy.

It will be easily understood, that a pound sterling, for instance, is given for a particular object, not on account of the name of a pound sterling, but because a pound sterling contains a certain quantity of pure gold or silver metal.

The quantity of pure gold or silver constitutes, therefore, the price of an object; and if, by law, it was reduced, no person would be satisfied with the same number of pounds sterling as before, in exchange for the same object.

If a general consent could be obtained, it would no doubt be compatible with the interest of every individual in the community; but there exists no principle of immediate self-interest, to render that consent voluntary, or no power to enforce it.

The good consequences are too remote for obtaining, in this case, the necessary consent of every individual; whereas, on a fall in the rate of interest on money, or on taking off a tax, an immediate advantage to the possessors of the object relieved, produces the necessary competition; promoting thus a general good, by an increased quantity of objects, and a reduction of their price.

Reducing, therefore, the quantity of pure metal in the coins, or money of account, which has in former days been the resource of many superficial Statesmen, never produced the consequences

which were expected from it, in decreasing the value of all things; while it was, in fact, an act of bankruptcy in Government, because its money-debts diminished in their intrinsic though not in their nominal amount.

The revenue suffered also the same degradation; so that nothing but a general discontent attended this plan; while, at the same time, there arose a great degree of confusion, as well as injustice, between individuals, with respect to their money-debts and their bargains previously made.

It becomes unnecessary to add more, in order to shew, that all changes in the standard of money, must affect foreign exchanges; and I shall therefore only observe, that it is of no consequence whatever, how the standard of money or the degree of alloy in coins, has been established in any country, because every

person has the power of calculating the exact value in pure metal, and of counteracting any error, which the variation in value between the two metals may occasion.

The permanency, therefore, of any regulation respecting the coins, or money of account, is all that is required (if they were even erroneously constructed) because however small, or even to appearance proper, the reduction of the standard or diminution of the quantity of pure metal might be, it immediately alters the settled scale of value for all things; and every individual will endeavour to counteract it, by asking a higher nominal value for his goods, in proportion to such reduction in the coins, which cannot fail to produce much confusion in the whole community.

I shall not speak of the effects which would ensue from raising the standard

of money, by making a pound sterling contain more pure metal, as such an operation will not enter into the head of any Statesman, but proceed to state another cause of variation in foreign exchanges.

I have already mentioned, that silver has of late years become dearer, relatively to gold, than was fixed by law, and that consequently the money of account in Great Britain is now a gold coin, while our silver has been sold for bullion.

The reverse of this has taken place in other countries; and we therefore find, that gold has there been fixed at a lower rate than in Great Britain, relatively to silver when converted into coin; and being become dearer in bullion, and melted down or sold with a premium, their silver coin has become their currency.

A pound sterling, then, being a gold money of account, as our current coin is gold only, (excepting light silver) and the money of account in other countries (Holland and Germany) being silver, there must necessarily arise a variation in the exchange with those countries, whenever a change in the relative value of silver to gold takes place; because, if silver becomes dearer, more gold will be given in exchange, and *vice versa*.

No par exchange can therefore be established, excepting between two countries whose current coin is of the same metal, and of course invariable.

The imaginary par of eleven gilders in Holland for a pound sterling in England, is of course the greatest absurdity which ever entered into the human mind.

The act of rendering paper-money a legal tender, will also affect the foreign exchanges of a country, and will proceed in the exact ratio of the depreciation of that paper-currency.

This depreciation may arise from the quantity of circulating paper-money, compared with the quantity of circulating gold and silver coins, and settle itself in that proportion, or from the want of confidence in the security of such paper-money.

The first mentioned cause will always have its natural limits; but the last-mentioned may become unlimited in its effects; and as both causes are generally combined in those depreciations, it is impossible to trace the degree which each of these causes occasions.

The principles, therefore, of variation in foreign exchanges, are fourfold.

First, the balance of all transactions, payable in money, being for or against a country, because the cost of transporting the metals must be either received or paid for in the exchanges. Secondly, an alteration in the standard of money in either of the exchanging countries. Thirdly, the variation in price of one metal against the other. And, fourthly, the depreciation of paper-money in either country, supposing it to be made a legal tender.

Having now stated the nature and value of gold and silver coins, and the principles of variation in foreign exchanges, it becomes necessary to proceed to an examination of the extensive power of the precious metals, and of all their substitutes and assistants, under the general term of Money, or Representative Signs.

This power arises from their utility

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having acquired a new price, called Interest, or annual hire, which immediately led to the possibility of forming, by a very simple combination, a safe, complete, and never-failing system of public finance, depending on the natural and certain concurrence of the whole community, and not liable to be deranged by the private views of any individual or individuals whatever.

CHAPTER V.

On the Interest or Price of Money; on its Power of precluding all Sinking Fund Systems; and on the Nature of public and private Money Debts.

THE foregoing Chapter will have sufficiently explained what is meant by the price of gold and by the price of silver; which appears to be perfectly distinct from the money-price of all objects, or from the price of money in general, called Interest, or annual hire, and relates merely to the comparative value of one metal against the other.

In this point of view, gold and silver may be called objects of com-

merce against each other: but this commercial character between the metals is lost in their qualification of money, or representative signs, to measure the value of every object, because the commercial consideration arises, in that case, from the combination of value, which may be due to each object thus purchased, or measured with a certain quantity of those metals.

This combination of value has been shewn to arise from the favorable or unfavorable state of the seasons, rendering many objects more or less plentiful, from the further expences incurred in producing each object, and from the accumulation of taxes, with all their consequences; which totally subverts the idea of Dr. Adam Smith, "*that the price of grain is the criterion of the price of money.*"

The price of grain, or of any other

object, appears, on the contrary, to be a circuitous process of commerce, and ultimately the measure of value naturally due to such object, as the interest of all the combined capitals and other expenses (taxes included,) which were employed in producing it.

It is true, that the *competition* price of an object may, from a greater or less demand, be sometimes carried beyond the *natural* price, which is due to it; but as a greater or less number of that object would be afterwards produced in consequence of this *competition* price not being in unison with the *natural* price, there must ultimately arise a fair and equitable price to the producer, and also an increase or decrease in the quantity of objects, in consequence of their having been overpaid or underpaid.

This circumstance makes all forestalling, or monopolizing, for any length

of time, impracticable; because all demands which might be deemed more exorbitant than the situation of each object required, would be speedily counteracted, to the great detriment of the extortioner.

The argument of forestalling and monopolizing is, however, frequently resorted to with great impropriety, in order to account for the increasing price of provisions, which might, with more justice, be attributed to the errors of Statesmen, in unnecessarily accumulating tax upon tax.

The circuitous, and consequently slow, yet not less certain and baneful effects of taxation, seem indeed to have totally escaped the penetration of Philosophers and Statesmen; which is the more to be lamented, as their progress is undermining the happiness of those individuals, whose incomes are so limited, as not to admit of increase upon

every increased charge from taxation and its consequences; while a further extension of this individual distress, will produce not only a more general discontent against Government, and augment the number of those who aim at its overthrow, but also create a very alarming emigration to foreign countries.

It is indeed evident to me, that the errors of finance will be the real cause of any resistance which may be made to the established Government of Great Britain, although defects in the constitution may be the watchword, because the distressed individuals would be looking up to a new constitution for relief from their misery, and attach themselves, on that account, to the disaffected.

The ultimate effect would, indeed, be contrary to their expectations, as all political convulsions destroy the first

principles of finance, which is public credit, and render, by those means, the evil irreparable for a certain time.

But to return from this digression, in order to discuss the price or interest of money, we must consider gold and silver, bank-notes payable on demand, or any other generally admitted representative sign, as a reproductive property, by means of the annual hire given in money for their services, and of course bought and sold at so many years purchase (in the same manner as land and houses) according to their relative scarcity or plenty.

This reasoning is perfectly applicable, whether they are returned again to the proprietor after a certain period with the annual interest, or that they are immediately exchanged for an object which produces an annual income.

In either case, an annual reproduction arises to the possessor, as 5 per cent interest is equal to 20 years purchase, and land bought at 20 years purchase, gives equally 5 per cent for the money paid for it.

Land, however, seldom gives so high an income as money laid out at interest; and it is therefore of material importance to discuss the principle from whence this difference arises.

It may possibly be imagined, that money is, in every point of view, entitled to a higher capital-value, or lower rate of income, than other property producing an annual increase, on account of its being the general representative of all things as their measure of value, and also the general director of this measure of value, by its price or rate of interest producing an effect (equal to every variation) on the income of all capitals.

This general superiority of value, when bought at so many years purchase, does not however exist, as money is defective in point of perpetual duration, from the effect of clipping, as well as from constant friction, and is also exposed to accidental loss; none of which circumstances take place with respect to land.

The period of existence cannot, indeed, be ascertained in money; and the lenders of it at interest, or annual hire, require therefore that an ample indemnification, or life-rent, be given for its use, on account of this uncertainty respecting its duration.

The indemnification, which is naturally resorted to, consists in money obtaining a higher annual price, or interest, than the purchase-money of land gives in annual income.

When money, for instance, is granted at 5 pr. cent interest, or 20 years purchase, land may probably sell at 25 years purchase; and, of course, gives only 4 pr. cent income to the proprietor.

This difference, or superiority, of 1 pr. ct. pr. ann. laid out at compound interest, procures, in a certain number of years, a sum equal to the capital; and should the original money-capital be lost in that period, the proprietor, or his heirs, will still be enabled, by the above-mentioned accumulation, from the greater income, to purchase a perpetuity in land.

Theory and practice are therefore consonant to each other; and prove, in the most unequivocal manner, that money-debts are not in their nature perpetual, as their superior annual interest furnishes the means of extinction.

This principle is also completely established in public finance, by the creation of long and of short annuities, as the reimbursement of their purchase-money takes its rise from their superior interest with its compound accumulation.

To illustrate this principle, we will

This mode of raising money by limited annuities, may no doubt be considered as creating a sinking fund for the gradual repayment of the capital received; but the process is at any rate very slow on the long annuities; and as neither the long nor the short annuities admit of a reduction in income during the term of years for which they are granted, it is in the power of every person to calculate their value, and precludes the possibility of the public suffering a very considerable loss by selling 3 pr. cents at 56, or even lower, and repurchasing them during peace at 85, and even at 96 pr. cent. which is in fact re-

turning above 180 for 100 received, and has actually taken place in our financial operations during the period of nine years, or between the years 1784 and 1792; as 3 pr. cents were sold by Government, in the first-mentioned year, as low as 52, and repurchased by the sinking fund at 97 in the last-mentioned year.

As a proof of this destructive system of reimbursement being deliberately adopted and publicly avowed by the Government of Great Britain, we need only peruse with attention Mr. Rose's publication in the year 1799, wherein is stated, that, by applying 1 pr. cent annually towards the extinction of every hundred pound sterling, 3 pr. cent stock created by Government, a compleat redemption will take place in the course of 39 years, supposing the redemption-price to be on an average 85 pr. cent for every £ 100 3 pr. cents.

merce against each other: but this commercial character between the metals is lost in their qualification of money, or representative signs, to measure the value of every object, because the commercial consideration arises, in that case, from the combination of value, which may be due to each object thus purchased, or measured with a certain quantity of those metals.

This combination of value has been shewn to arise from the favorable or unfavorable state of the seasons, rendering many objects more or less plentiful, from the further expences incurred in producing each object, and from the accumulation of taxes, with all their consequences; which totally subverts the idea of Dr. Adam Smith, "*that the price of grain is the criterion of the price of money.*"

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value between a $4\frac{1}{2}$ pr. cent perpetual annuity, redeemable at pleasure, and an annuity for 58 or 59 years, are obvious.

An annuity for a term of years, cannot be reduced during that period, while a perpetual annuity of $4\frac{1}{2}$ pr. cent becomes redeemable, and of course reducible to 4 pr. cent. whenever a fall in the rate of interest allows Government to borrow at that rate; and in the same manner the 4 pr. cents may be reduced to $3\frac{1}{2}$, and even lower, if interest of money should continue to fall.

The proprietor of a $4\frac{1}{2}$ pr. cent. redeemable at pleasure, would therefore be exposed to receive less interest during many years of the 65 a 70 years, for which a limited annuity might be granted to the same amount, on the payment of one hundred pounds sterling, sup-

posing interest of money to be at that rate.

No person could hesitate in giving a decided preference to the limited annuity, when interest of money is high, because, on the supposition that the perpetual annuity should be reduced only 1 pr. cent during 45 or 50 years, the holder of the limited annuity would, by the one pr. cent laid out at compound interest, procure, in that number of years, a sum equal, nay even superior, to the capital paid; and thereby, on the expiration of the annuity, stand upon an equal or even better footing than the holder of the perpetuity.

I have here stated a moderate interest for money raised by Government on long annuities; but in order to subject myself to no observations on the impracticability of raising money in that way, I must observe, that a 5 $\frac{1}{2}$ or 6 pr. ct.

perpetual annuity, however extravagant it might at first appear, would probably be subject to 2 pr.ct. reduction in the course of 10 years; and the long annuity might therefore be established with perfect justice to the Money-lender and to the Public, either at a lower interest, or for a shorter period than 65 or 70 years, if the disadvantage arising from a probable fall in the rate of interest on the perpetual annuity be kept in view, and allowed for in a reasonable manner on both sides.

It is this consideration alone which gives an equal value to a perpetual and to a limited annuity, as also a proportional higher value to 3 pr. cents than to 4 and 5 pr. cents perpetuities; as, for instance, 3 pr. cents bought at 65 pr. cent. give less interest than 4 pr. cents bought at 80 pr. cent. and the latter purchased at 80, give less interest than 5 pr. cts. purchased at 94 pr. cent.

This, or some other proportional difference in price, generally exists, because 5 pr. cents are more liable to a reduction of interest than 4 pr. cents, and that these are also liable to a diminution, while 3 pr. cents are in no degree subject to this loss.

The lesser interest therefore arising from the proportional dearer purchase of the 3 pr. cent. annuities, than the 4 and 5 pr. cent. annuities, is amply compensated by the impossibility of receiving less interest in future.

As mankind may be led to suppose, from the destructive mode adopted in raising money for the Public, which renders it necessary to reimburse 150 for every 100 received, besides paying above 5 pr. cent. interest, that public security is inferior to private security, it becomes necessary to prove, that the contrary is the case,

Public debts, or annuities, are founded on the security of every individual's property; while private mortgages are only founded on the property of the individual possessor.

Government has the right, and the power, of raising annually on individuals, by taxes, the amount of all annuities granted, and of course bankruptcies are unnecessary.

Public debts can be subject to no litigation in law; but private mortgages are perpetually exposed to it, and occasionally to ultimate loss of property by defective deeds.

Public debts can always be converted into money by a sale, at such prices as the current rate of interest warrants.

Private mortgages cannot be turned into cash, until the period of payment

agreed on arrives; and a tedious process of foreclosing is often resorted to, in order to compel payment, even without success in time of war.

Great sums of money are also lent, in every community, upon the personal security of the borrowers, of which a part is annually lost by the insolvency of some of the debtors.

I shall suppose, that 2 pr. cent. of the whole mass of money, which is lent annually on personal security, is lost by bankruptcies; it follows of course that, in 50 years, a whole capital is extinguished.

It must not, however, be understood, that the whole of the first year's loans is lost in 50 years, but only a sum equal to it, on the whole transactions of that period.

Some of the proprietors may even be lucky enough to lose nothing, during the 50 years; while others may lose, during that period, more than their share of the first year's capital; which makes it a kind of lottery for perpetuating money-debts to some individuals, at the expence of others; as, in that case, the fortunate save more, and the unfortunate lose more, than the nature of private money-debts warrant.

Private money-debts are therefore entitled to a higher interest than public debts, under the denomination of Public Annuities, because the former cannot be so secure as the latter.

It is evident then, that money-property, lent upon personal security, is not in its nature a perpetuity, and that the security, even of mortgages, is also much inferior to that of public debts, as the mortgagees are not only exposed to occa-

sional loss, but also to much trouble and inconvenience, as well as to the same variation in the rate of interest to be received for their money on a reimbursement being made to them.

Experience has shewn, that these reimbursements are not procurable, with the best-founded claims, before a Court of Chancery, when interest is high; and are of course only to be expected when interest is low.

The most perfect security for money-property, consequently exists in the possession of Public annuities; and as no other mode of lending money at interest, can extend its duration beyond a longer or shorter term of years, according to intervening accidents, there can be no reason for a nation paying *eternally* for the use of money, and particularly so as the interest paid is generally much superior to the income of a

perpetuity in land, and, in most instances, equal to what is paid for those private loans, which are subject to annual loss by bankruptcies; yet the granting of 3 pr. cents. so much under par, for the money received, is still more reprehensible, and openly avows this system of eternal duration without the advantage of very low interest, to which it is naturally entitled, as it holds out no prospect of extinction in the course of time, nor partial relief from a diminution of interest, but exposes the nation to a perpetual burthen, or to the still more destructive operation of repurchasing these 3 pr. cents at a much higher price than was obtained for them; either of which circumstances must, at one time or other, produce inevitable ruin, as will be hereafter shewn.

Having thus explained the solid foundation of public credit, under a well-regulated Government, and a properly

constructed system of public finance, it will be superfluous to add, that it is not easily shaken, and that those great variations which take place in the price of public funds, are more to be attributed to a wrong system of finance, and to the relative plenty or scarcity of money, than to an increase or decrease of confidence in public securities.

Fears and hopes, respecting political events, may produce temporary impressions, which will soon yield to the effects of a relative scarcity or plenty of money; but interior insurrections, the invasion of an enemy, or the impossibility of raising annually the amount of taxes for interest of debts already incurred, or for those that may be further required, will no doubt produce the most serious effects on the price of public funds.

As long, however, as none of these events take place in Great Britain, her

public credit will remain unsullied, and every lasting rise or fall in the price of her public funds will proceed from the relative plenty or scarcity of money, to which a right or a wrong system of finance will greatly contribute.

As a proof that this relative plenty or scarcity of representative signs, has a very considerable influence, we find that the price of our funds was lower after the peace in 1783 and 1784, than during the war which preceded it.

This could only arise from the immense exportation of the metals in the year 1783; and if we should have again to lament the same cause, and the same effects, it will be attributed, by uninformed men, to want of credit for the Public, to diffidence in the Ministry, or to some trivial and unfounded cause.

Public credit is also generally sup-

posed to depend very much on the creation of a sinking fund, and consequent reimbursements: but this idea falls to the ground, by the simple consideration, that no engagement whatever has hitherto been specifically entered into with the public creditors, as Parliament is at full liberty to retract its resolutions respecting a sinking fund, whenever it is fully convinced of its impropriety.

An examination into the origin of public loans, will also convince us of the impolicy, as well as of the impropriety, of ever redeeming public debts in any other way than by the sale of new annuities at a more favorable rate of interest; that is to say, by selling $4\frac{1}{2}$ pr. cts. at par, in order to pay off 5 pr. cents at par, and continuing such operations as far as the falling rate of interest will admit of.

When taxes were made payable in

money, they naturally increased considerably the money-price of every article, and also the interest or price of money, as this additional value required representation in money, and made it relatively scarcer.

This produced naturally a very sensible diminution in the quantity of industry, or at least a considerable check to its annual increase in times of peace.

In times of war, these effects became so very intolerable, on account of the large sums immediately wanted, that they could not escape the notice of the most ignorant of mankind.

It was, indeed, so perfectly impossible to raise a large sum by new taxes, within the time it was wanted, that some mode of anticipating the receipt became necessary, and an immediate loan for the amount of the taxes intended to be levied

within the year, was consequently resorted to, under the positive engagement of redeeming such loan with interest at the expiration of a year.

But the enormity of taxes to be levied in the course of the year, for the purpose of carrying on war, produced such violent effects on the mass of existing industry, that the produce of those taxes fell infinitely short of what they were calculated at, and the pre-existing taxes experienced also a considerable diminution in their produce, from so great a multiplication of their number.

The security given to the holders of the loan, became therefore imperfect, and the repayment of it within the course of a year impracticable; while the Public funds experienced a general discredit, and so great a diminution in their value, as to give a most enormous yearly interest to the purchasers.

This destructive system of raising the war-supplies within the year, and of making loans, to be reimbursed also within the year, was however still persevered in, until the mischief had arisen to such a height, as to threaten a general convulsion; when the Statesmen of that day were forced to look out for some other resource.

It occurred to some of the most enlightened, above a century past, that to extend the term of paying back the capital until convenient, and to pay the interest regularly, was the only plan that could be adopted.

The funding system, therefore, took its rise from this circumstance of necessity, and not from the conviction of mankind, respecting its virtues and its powers, whenever it became substituted for taxes to be raised within the year: nor does there seem to have existed

an idea, that it required no fund for liquidation, on account of its self-extinguishing principles, as the knowledge of these circumstances would have prevented the intrusion of a sinking fund, or redemption system, which has so evidently occasioned the premature ruin of many flourishing nations.

From the moment of protracting the repayment of all loans, (until it proved convenient to the Public, which seems not to have been thought practicable until lately) Great Britain experienced the happiest effects in the rise of her public funds, in the diminution of the interest of money, and in the rapid increase of her industry, which has enabled her not only to go on prosperously in times of peace, but also to carry on very expensive wars; proving thereby, that neither policy nor public credit demanded any reimbursements.

It remains, therefore, a duty in the

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supporters of a sinking fund plan, to explain, upon mathematical principles, the necessity for Great Britain recurring again, in support of her public credit, to that system which formerly occasioned her distress, and which our ancestors were forced to abandon, in order to prevent a general confusion.

We have indeed been informed, in general terms, by very high Parliamentary Authority, that the ordinary means of raising the supplies for war, were become insufficient against the revolutionary means employed by France, and that it was therefore become necessary to levy, for the service of the year 1799, only 15 millions by loan, and 10 millions by an extraordinary tax, payable within the year, which was further to be continued for two years after the peace, in order to redeem the loan of 15 millions.

All my arguments, on the subject of taxes, have sufficiently developed the inevitable consequences of this extraordinary measure of finance, which was formerly exploded; and I shall therefore confine myself at present to observing, that there certainly could exist no difficulty in raising the interest of these 10 millions by taxes, as it was thought very practicable to levy the whole capital in that way, and there could also be no difficulty in extending the loan to 25 millions, as those persons who are called upon to give the 10 millions in taxes, would in any event have preferred giving it on loan upon the same terms as the 15 millions, and have cheerfully submitted to their share of a general tax for the interest.

I must further observe, that the rise in the price of our public funds, during the year 1799, preceded in part this financial operation, and cannot therefore be at-

tributed thereto, but solely to the additional coinage of gold from the bullion imported in 1797 and 1798, with its concomitant attendant, an increase of paper-money, both of which circumstances produced a considerable augmentation in the number of representative signs, as well as in the mass of industry and in the public revenue.

Should it hereafter prove, by experience, to be a well-founded opinion, that the redemption of near 75 millions sterling of 3 pr. cent stock by the purchase-money of the land-tax, and possibly as much more by the old and new sinking funds, aided by the continuation of 10 millions extraordinary taxes, after the peace, would considerably raise our public credit, and consequently the price of our public funds, Mr. Rose's opinion respecting the average price of 3 pr. cents will probably be incorrect, in stating it so low as 85 pr. cent.

though it would sufficiently shew the financial powers of Great Britain, by repurchasing, with impunity, at 85 pr. cent. what she sold at 56, giving thus, in *an unequivocal* manner, nearly 20 pr. ct. interest pr. annum, during three or four years, for monies levied during war.

If on the contrary, however, the price of our public funds should, notwithstanding these immense efforts by taxation, continue low after the peace, we shall then have to lament the very heavy burdens so inefficaciously laid on the inhabitants of Great Britain, and particularly on the landholders, for the purpose of raising public credit, which could, even in the event of success, only produce the fatal effect above-mentioned, of paying an *enormous* interest during peace, under a different form, for monies borrowed during war.

Our ancestors do not appear to

have considered the funding system as mathematically right, and at all times expedient, practicable, and necessary, but only to have adopted it as a temporary expedient, because they professed an intention of ultimately reimbursing the loans, whenever it proved convenient to the Public to make the necessary efforts by taxation.

The progress of this plan, for a century past, has been so slow, as to indicate, in a very satisfactory manner to every profound investigator of the business, that it is utterly impossible to diminish, by these means, the public burdens to the amount of one farthing annually.

This will perhaps be called a very strong, and even a very erroneous assertion, because above 60 millions have been actually redeemed by means of taxes applied solely to that purpose.

But how can this apparent diminution of debt, and of annual burdens in interest, be admitted as a reality, when it can be proved mathematically, that this effort towards redemption has not only been carried on during war, by extending the new debt to the same amount, but has crushed a mass of growing industry, which would have produced a much greater increase of revenue to the Public, than the amount of interest redeemed, and also enhanced the price of every article, as well as the interest of money, to such a degree as to augment considerably the public expences, and to occasion a much greater increase of the debts contracted during war, and at a higher interest, than would otherwise have been the case, independent of the increased expence in our peace-establishment and in our poor-rates, which become perpetual annual burdens, and of a much more serious nature even than interest on debt, as they

contain no possible means of extinction or redemption.

The Financial Committee, in the House of Commons, corrected, in 1791, the estimate of the annual peace-establishment made in 1786, by increasing it some hundred thousand pounds pr. ann.: but it will be discovered hereafter, that this increase was not adequate to the real expenditure, and that a further correction, to a very considerable amount, is necessary.

The Committee of 1786, state also, that, if the permanent taxes produced 13 millions pr. ann. there would be one million surplus towards paying off the national debt.

It appears, however, that these taxes produced, in the years 1790 and 1791, much more, and in 1792 upwards of £ 14,000,000 sterling pr. ann. yet no

greater surplus than one million pr. ann. ever appeared to public view, after providing for the *necessary exigencies* of a peace-establishment.

Mr. Rose states, indeed, that extraordinary and accidental expences, to a considerable amount above the peace-establishment were provided for; but he omits to add, that extraordinary receipts to a considerable amount, independent of the ordinary receipt, equally took place, which provided for these accidental expences.

An increase of one million annually, in the peace-establishment, is not much attended to, although equal to the interest of above 33 millions of 3 pr. cts.

The bad effects, therefore, of all sinking funds, and of all plans towards raising the supplies within the year by taxes, are not limited to the annual loss of industry, and the consequent lesser produce of each tax, in some proportion

to the number which are added, but increase considerably the burdens of each succeeding war, as well as the expences of a peace-establishment; branching out, at the same time, to a variety of expences by their actions and re-actions, and occasioning much greater future debt and annual burdens, than the interest redeemed by paying off the capital.

I must indeed admit, that the loss on the old taxes is much inferior to the produce of any new tax which is levied, so that every nation may, at any time, increase its revenue by accumulating taxes.

To account for this circumstance, I have only to state, that the representation in money, required by the new tax, can only be supplied, by suppressing the representation of some industry, which would otherwise have existed; and therefore the new tax is not

only supplied by the tax lost on such suppressed industry, but also by the money-value of that industry, as both are combined together, since it is impossible to suppress, in part, the produce of a tax without suppressing, at the same time, the industrious source of such tax; nor is it possible to increase industry by a new tax, although it prove ever so productive.

It is impracticable, indeed, to trace the loss which arises in the old taxes from the circumstance of levying new burdens, because this depends on the nature of the new taxes; some of which produce very little effect in augmenting the price of industry; while others produce very great effects in that way.

As this difference refers to the Fiscal System, or art of levying in the most efficacious and in the least detri-

mental manner to the whole community, such taxes as are absolutely necessary, which is not immediately connected with my present plan, I shall only state, that capitation-taxes, or such as come under that qualification, do the least mischief in increasing prices, and in demanding additional representation, which makes them come nearer to the original design of levying contributions in kind; and it is particularly fortunate for Great Britain, that necessity obliges her to resort, at present, to that kind of taxes for levying large sums.

Admitting, then, that there is no occasion for the existence of the sinking-fund taxes, it follows, that their repeal would promote the principle of increasing the produce of the remaining taxes.

This increasing produce being equally unnecessary, would admit of a fur-

ther reduction in the number of taxes, in the price of all necessaries of life, and of course in the public expenditure.

We should then enjoy, in a twofold manner, an annual diminution of taxes and expences, from the increased produce of the former, as well as from our diminished wants towards the latter, and experience a rapid increase in the mass of industry; so that, in the course of a few years, ten taxes would produce as much revenue as twelve or thirteen of similar extent do at this moment.

In this manner is one relief from taxation followed immediately after by another relief, as also one diminution in the annual public expences towards the peace-establishment, followed by another diminution; and, *per contra*, one additional burden of taxation is the

source of another burden, as well as of increasing expences; both which go on in a dreadful progression, until financial ruin ensues.

In examining, further, the operations of Great Britain, with respect to finance, we find, that she has hitherto persevered in raising the peace-establishment expences within the year by taxes, and the war-supplies by the sale of limited or perpetual annuities, under the denomination of Loans.

However practicable the former mode may be, it will not be improper to state, in a new point of view, the superior advantages of the latter mode, even for the peace-establishment, and how these advantages are totally lost sight of, whenever a sinking fund system is adopted.

Raising the supplies by taxes within

the year, is taking from individuals the whole capital wanted ; whereas, by raising those supplies through the means of public loans, is only taking from individuals, in taxes, an annual interest on the same amount. The last grievance is no doubt annual ; but it certainly will be admitted, that, by leaving the capital to individuals, they are not only enabled, by an industrious application of it, to pay the interest annually, but also to procure some profit to themselves, as long as the nation is capable of improvement in various branches of industry.

It follows then, that, in desisting from levying, by taxes, one million wanted, and substituting an annual levy of fifty thousand pounds in taxes for the interest of a million loan, the general estate would be improved, in annual income, to a much greater amount than fifty thousand pounds.

I shall be within bounds, when I state this improvement at three hundred thousand pounds during each year that this plan is adopted, either negatively or positively; that is to say, either by not levying the million by taxes if wanted, or by taking off unnecessary taxes to that amount.

Of these three hundred thousand pounds, the public revenue would of course receive a share, and thus be more than fully indemnified, because the remaining tax for the interest provides for what the million would annually cost in interest.

But, under the supposition even that this annual increase to individuals, was only one hundred thousand pounds pr. ann. they would cheerfully give, and indeed could well afford to give, a part of it, if the fifty thousand pounds pr. ann. left in taxes, for the interest of the million loan were equally suppressed.

By applying the argument also to an individual who had raised ten thousand pounds on an improveable estate at 5 pr. ct. interest, we must allow, that he would be justly accused of doing himself, and his posterity, a very material injury, if he voluntarily offered to pay off the debt with the prospect before him of improving his estate by means of these ten thousand pounds, as far as 10 pr. cent annually, or 5 pr. ct. above the interest to be paid, and that his annual expences increased also by such misconceptions and such miscalculations.

Let ingenious calculators of the effects of compound interest, state the magnitude of such compound accumulation of evil in the course of 50 or 60 years, and they will then produce to the world an effectual antidote to that delusive and bewitching poison, infused into the understanding of man by former calculators, on the wonderful effects of a mil-

lion sinking fund with its compound operations, in paying off a national debt.

The advantages are evidently double, in the former case, to what they are in the latter; for the act of paying off 50 millions of the national debt occasions the loss of 100 millions to individuals, and to the revenue a share of the annual income on that property, during its accumulation.

The analogy of reasoning between the affairs of a nation and that of an individual, is indeed very imperfect, and can only be resorted to for partial elucidation; for when a nation commits the error of paying off its useful debts, or of raising taxes within the year for what might, with more advantage to the Community, be levied by a loan, it is further subject to increased annual expences, in times of peace, as well as in times of war, and to higher interest

for the necessary loans in the latter period.

Whoever doubts these consequences, may examine the progressive increase of our public expences, in consequence of every war, and reflect afterwards on the probable annual expence of a future war.

On reading Mr. Chalmers's comparative estimates of the prosperity of Great Britain at different periods, I was anxious to know if internal industry and population was increased in any proportion with that of exterior commerce and shipping, and immediately applied myself to a critical examination of the different branches of our public revenue.

This examination convinced me, that some internal branches of industry must have sunk, in order to make way for foreign commerce, as I could perceive

no increase of consequence in our public revenue since 1774, but what arose from the accumulation of above 6 millions of new taxes during the American war. The permanent taxes (including those 6 millions) levied before 1786, produce at this moment no more than 14 millions, and those levied before 1775, (exclusive of those 6 millions) produced in that year about 7 millions; consequently the general increase on the old and new revenue is not great during 25 years, and can have only arisen from the increase of exterior commerce between 1786 and 1802.

We have therefore no proof of internal prosperity during that period, and have to lament, that our accumulated wealth in money, during 25 years, from annual balances with foreign countries, has been mostly absorbed in the representation of new taxes, and in the consequent additional nominal value given to all things; which is, in fact, accu-

mulating a fictitious wealth of money only, and not acquiring an addition of objects, internally consumable, paying an annual revenue, which can alone give an independant and solid strength to a nation.

Instead then, of benefiting posterity, by accumulating taxes for the purpose of creating sinking funds, as is too generally asserted to be the case, we are laying the foundation of complicated financial distress, and of ultimate ruin, not alone by checking the improvement of the public estate, but also by causing greater expences to be incurred than our income will admit of; while a contrary system, which is now so much reprobated, would infallibly increase the revenue much more annually than the sinking fund could possibly redeem, improve very considerably the national estate, or groundwork for taxation, and subject ourselves, and our posterity, to much less annual expenditure.

This contrary system of increasing the public debt for a certain term, and of diminishing the number of taxes, which will be the object of the following Chapter, may therefore with justice be called true political economy; while our present system is entitled to the appellation of political Extravagance.

Having now explained the reasons for preferring, on every possible occasion, the system of raising the supplies by loans in stead of taxes, and for desisting from all sinking fund plans, it remains for me to destroy an existing idea, that the price of stocks is considerably increased by the annual application of a large sum of money towards their redemption.

I have already observed that, where no obligation to reimburse has been entered into, no diminution of confidence can arise from the circumstance of not

redeeming public debts, and particularly when the operation is detrimental to the improvement of the general estate, and productive of increasing annual expences.

In this point of view, a sinking fund may even be considered as destroying public credit, because those persons who are injuring their estate, and increasing their expences, are certainly less entitled to the confidence of money-lenders, than those who are pursuing a plan for improving their estate, and for diminishing their expences.

But it will be still urged, by those who see no salvation excepting in the redemption of debt, without any regard to objects of much more importance, that the annual application of a large sum to a particular object, must inevitably raise the price of that object.

In order to discover the fallacy of

this position, we must enquire into the mode of obtaining this large sum, as well as what effect it has on the relative scarcity or plenty of money, and also investigate the process of its application. There can be no difficulty in admitting, that the scarcity of money is considerably increased by raising a large sum in taxes; for, although the money received is returned again into circulation in the same manner as if received from individuals in the form of a loan, yet the increased prices of various objects may require, in some cases, the additional representation in money of twenty-five times the amount of those taxes, on account of the additional price of the object taxed, the profit taken on it by the producers, all the actions and reactions upon other objects, as well as the repetition of all these increased values in money, as often as the objects go from hand to hand until consumed.

Returning the money again into circulation, does not therefore produce a general good, equal to the general evil arising from its being levied, as is the case with money raised by a loan, when the representative signs return again immediately to the same situation with respect to quantity, because twenty-five times the amount may be required for additional representation, if raised by taxes.

The general scale of interest is consequently raised, and the price of stocks lowered.

This is the first effect, and will be better understood by the following delineations.

No. 1. $\begin{array}{c} / \quad / \quad / \quad / \quad / \\ \hline 3, \quad 3\frac{1}{2}, \quad 3\frac{1}{2}, \quad 3\frac{1}{2}, \quad 4. \end{array}$	No. 2. $\begin{array}{c} / \quad / \quad / \quad / \quad / \\ \hline 3\frac{1}{2}, \quad 3\frac{1}{2}, \quad 3\frac{1}{2}, \quad 4, \quad 4\frac{1}{2}. \end{array}$
No. 3. $\begin{array}{c} / \quad / \quad / \quad / \quad / \\ \hline 3\frac{1}{2}, \quad 3\frac{1}{2}, \quad 4, \quad 4\frac{1}{2}, \quad 4\frac{1}{2}. \end{array}$	No. 4. $\begin{array}{c} / \quad / \quad / \quad / \quad / \\ \hline 3\frac{1}{2}, \quad 4, \quad 4\frac{1}{2}, \quad 4\frac{1}{2}, \quad 4\frac{1}{2}. \end{array}$
No. 5. $\begin{array}{c} / \quad / \quad / \quad / \quad / \\ \hline 4, \quad 4\frac{1}{2}, \quad 4\frac{1}{2}, \quad 4\frac{1}{2}, \quad 5. \end{array}$	No. 6. $\begin{array}{c} / \quad / \quad / \quad / \quad / \\ \hline 4\frac{1}{2}, \quad 4\frac{1}{2}, \quad 4\frac{1}{2}, \quad 5, \quad 5\frac{1}{2}. \end{array}$

Here are six different scales of interest, increasing each $\frac{1}{2}$ pr. ct. according to the relative plenty or scarcity of money. The five variations in each scale, denote the different objects which give degrees of interest, according to their character for security, duration, &c.

I shall suppose, then, that the sinking fund taxes produce the effect of changing the scale of interest on money from No. 1 to No. 2.

An impression is immediately made on each object, producing an annual interest; and of course the public stocks, which form a part of those objects, fall in capital value, so as to give $\frac{1}{2}$ pr. ct. more annual interest or income.

But, on the supposition even that the sinking fund taxes produced no effect whatever on the scale of interest, it will soon appear, that no particular ob-

ject, giving an annual income, can be ultimately more benefited than any other object in the same scale, by the application of a large sum towards its purchase.

It must be recollected, that the duty of money consists in representing the objects of daily consumption, the annual or daily hire of man and of animals, and the transfer of all property giving an annual income.

The power of any given quantity of money, in thus representing all things, is of course naturally limited; and if an extraordinary service is occasionally required for any particular object, there must arise a deficiency of power to represent other objects.

If the price of stocks then should be carried by the purchases, through the sinking fund taxes, higher than the scale established by the relative plenty or

scarcity of money entitled them to, a discordance with the other objects in that scale would immediately ensue, and all the principles of relative value be immediately destroyed.

It must then become the interest of every individual, who wishes to appropriate his money to the purchase of an annual income, to neglect the public stocks, and to apply such money to those objects which are proportionably lower in price than their character, for security, duration, &c. demands, until every object giving an annual income finds again its level in the natural scale of interest, established by the existing relative plenty or scarcity of money.

Raising large sums of money by public loans, increases no doubt, in some degree, the general scale of interest, because it is, in fact, creating additional money-wealth, giving annual

interest; but this effect is trifling when compared with that which is produced by raising the same sum in taxes; and as Government expend the whole sum borrowed within the year, the general consumption of all objects is considerably increased, and makes full amends for all capitals being temporarily decreased in their money-value.

But if, on the contrary, 10 pr. ct. is taken from every person's income to pay off a public debt, the money-wealth is diminished at the expence of the general consumption and of the public revenue, and the operation of the tax hurts the scale of interest much more than the diminution of so much money-wealth can have benefited it. The influx of money prevents these effects being generally perceived; but they are not less mathematically true, whether positive or negative; that is to say, whether the evil really takes place, or

that the good resulting from the influx of money is lost by simply repairing the mischief.

Having now fully combated the delusive ideas of those who support sinking fund systems, in every point of view in which the subject can be presented, it behoves me to add a few words on the imaginary consequences of an ever-increasing debt, and of the supposed difficulty of finding money to support it.

I have already stated, that there exists, in practice, a mode of raising money on annuities for 65 or 70 years, which create no greater charge of interest than perpetuities, and become extinguished without any reimbursement.

Had that mode therefore been solely adopted for 100 years past, we

should at present only be burthened with the annuities created during the last 65 or 70 years, and have an annuity falling annually into the public Treasury, upon which a new annuity for 65 or 70 years might be annually and perpetually granted, while we should enjoy, unincumbered, the natural increase in the yearly produce of existing taxes, as a collateral resource and security against future events.

No situation in finance could be more enviable, and the financial machine might then be said to revolve upon its own axis, formed by taxes levied on the national industry and prosperity during 65 or 70 years, with the additional security of a further increase in the produce of those taxes from increasing prosperity, promising thus eternal duration without further burdens.

As modern nations have prospered

during a much longer period, under the most pernicious systems of public finance, it follows of course that no greater difficulty could have arisen respecting the representation of an increasing debt, than has actually existed during the last 65 or 70 years.

But this fear of there not being a sufficient quantity of money for the support of an increasing debt, is equally applicable to increasing estates, houses, and industry; as neither the one nor the other can conveniently take place without additional representative signs.

The increase of public debts, when substituted for a more pernicious mode of raising money for the use of the Public, is as useful and necessary to the prosperity of a nation, as the increase of estates, houses, and industry, because those debts are in that case the means of promoting all those objects of national riches, or of preventing their decrease.

The complaints therefore, which are incessantly made against public debts, are frivolous as well as groundless, and should be levelled against raising the supplies within the year, in order to avoid public debts, against taxes for the purpose of paying off existing debts, and even against the mode of constructing many of those debts, as well as against that kind of taxes (levied even for the interest) which produces the greatest effect in raising the price of all objects of consumption.

Nations who accumulate money in their public treasury during peace, in order to carry on future wars, act much more erroneously; and cannot much increase in wealth and strength, as the source of prosperity is locked up by those means.

Philosophers attribute, in general, every incapacity in point of public finance,

to the form of government, in place of tracing it to a pernicious form in their financial systems, which may be rectified under a despotic as well as under a free government.

The construction of all our public debts, ought to have been confined to long annuities, which extinguish themselves ; or to perpetual annuities, redeemable at pleasure.

These perpetual annuities should have been granted at such a rate of interest, according to the relative scarcity or plenty of money, as to procure par, or 100 pr. cent, in order to have the advantage of redeeming them, when interest of money fell ; a temporary high interest not being an object of consideration to a nation.

We shall suppose, for argument sake,

that 3 pr. cents might be sold at 64 pr. ct.
and 5 pr. cents at 100.

In the former case, money is no doubt obtained at a fraction less interest than in the latter; but of what moment is such saving, when compared with the possible reduction of those 5 pr. cents in a few years to 4 pr. cent. and perhaps to 3½ and even to 3 pr. cent. in the course of a more considerable number of years.

This reduction becomes at least a partial extinction of perpetual annuities, and arises naturally from the principle of paying a low interest for the use of money, when it is relatively plenty, after having paid a high interest for it, when it was relatively scarce.

These reductions of interest have already been established by practice, and it therefore becomes unnecessary

for me to add more on the subject, or to observe, that 3 pr.cents cannot, without some equivalent consideration, or without consent, of the proprietors, be further reduced.

But it is necessary to remark that, under this diminution of interest to 3 pr. cent. our public debts would seem to acquire a new character for durability equal to that of land; and although it may be thought unfair, that the proprietor can never claim his capital at any future period, and that he remains subject to the disposing of it much below par when interest of money is high, yet it must be considered, that every purchaser of land, houses, &c. when interest of money is low, becomes equally exposed to this loss when interest of money is high, should his wants oblige him to alienate his property.

This dispensation in Government

from ever returning the capital, is fully compensated to the proprietor of the annuity, by its being perpetual and always saleable; by the superior security of all public debts, and by the facility of receiving the interest half yearly.

I have however asserted, in the First Part of this Work, that *all* public debts, properly constructed, will extinguish themselves without any reimbursement, arising from a sinking fund: but this appears, as yet, only to be the case with the long and the short annuities, as the partial extinction of the 5 and 4 pr. cts. is confined to their reduction as low as 3 pr. cent. and it therefore now becomes necessary for me to develop a new mode of proceeding with those 3 pr. cts. by which they may be further reduced, and be at last fully extinguished without a sinking fund, and without any injury whatever to the money proprietors.

This may seem paradoxical; but it

arises naturally out of the power of money, combined with the principles of relative value, on which all financial operations must be founded, in order to produce strict justice to all parties, and at the same time certain as well as salutary effects to the whole community.

It is a well known fact, that our greatest loans are made in times of war; and as the scarcity of money is in general relatively greater during that period, than in times of peace, on account of the treasures of Spain remaining in Mexico and Peru, the 3 pr. cent annuities are considerably below par, or 100 pr.ct.

Suppose, for instance, that they are at 62 pr. cent. and that a new loan was necessary.

Government might offer to take the 3 pr. cents at 70 pr.cent. provided that thirty pound sterling in money be added,

and for this one hundred pounds value so received, the Stockholder might be given the choice of a five pound annuity redeemable at pleasure, or a five pound sterling annuity for 70 years certain, and then to cease altogether.

No Stockholder would object to such conversion, as his property would be increased by £ 8 sterling on every £ 62 sterling, and his interest or yearly income 10 shillings on every £ 62 value, that is to say, above $\frac{1}{4}$ pr. cent. *on the capital value of that moment*; nor could Government hesitate at sacrificing 10 shillings or $\frac{1}{4}$ pr. ct. pr. annum on every £ 100 sterling 3 pr. cents. which it redeemed in this manner from perpetual existence.

If these converted 3 pr. cents were originally 5 or 4 pr. cents. it is in fact only giving back for a time some part of a previous extinction, in order to ex-

onerate the proprietors for the consequences of further reductions, and the advantages given, might serve also for a part of the bonus on the new loan.

In these points of view, the sacrifice could admit of no regret; but when simply adopted, as a reparation *for errors committed*, in granting originally 3 pr.cts. much below par, it becomes a subject of grief, on account of the additional burthen, not unlike a sinking fund, which it creates.

The $\frac{1}{2}$ pr. cent additional interest on each £100 sterling stock, which the proprietor obtains, will, with compound interest, procure him more than his capital in 70 years, if he takes the long annuity; and if he prefers the five pound perpetual annuity redeemable at pleasure, a reduction to 4 pr. cent. would only diminish his original 3 pr. cent to $2\frac{1}{2}$, and if ultimately reduced to 3 pr. cent. there

would still remain about $2\frac{1}{2}$ pr. cent. of the original 3 pr. cent. stock's interest.

Several conversions therefore are necessary, if perpetual annuities are granted before the whole can be extinguished; but the new debt is also diminishing in annual burthens at each reduction of interest.

Should these repeated conversions take 100 years to extinguish fully the perpetual annuities, they would still be less burthensome to the nation than a 70 years annuity, because a partial relief of $\frac{1}{2}$ pr. cent. might take place in a few years after their creation, whereas the whole burthen of a long annuity must remain during its existence of 70 years.

If it happened that the perpetual annuities could not be reduced lower than to $3\frac{1}{2}$ pr. cents. the same principle may still be adopted towards their con-

version into 5 pr. ct. perpetuities or long annuities; nor must it be understood, that I have stated the exact proportion to be observed between those differently constructed annuities, as their relative price must depend on a variety of existing circumstances, to be considered by the Minister, and by the Money-lender, when any financial operation takes place.

It is sufficient for me to have shewn the general and unerring principles of finance, as well as the solidity of my arguments, and the practicability of the doctrine so repeatedly urged by me, that all public debts are extinguishable without a sinking-fund, and without paying a higher interest than the current rate of money demands.

As the terms of all money transactions are constantly varying, the Minister of Finance has not only to attend to

the general principles, in constructing all public debts, but also to the existing rate of interest, and to the principles of equivalent value in differently constructed annuities.

The Money-lenders are by education sufficiently instructed how to attend to their own interest; but the education of Statesmen has hitherto been ill-suited to acquiring that degree of knowledge, respecting the interest of the Public, when money is to be raised, which would put him on a footing with his antagonist, and give him a perfect idea of his undoubted power to give such a form to his loan as he thinks proper, and to enforce, at the same time, reasonable terms.

It is to this disparity of knowledge, that the doctrine of equivalents has been entirely lost sight of in public finance, and that the monied men in almost every

country, have made bold assertions, without any proof on this intricate subject, and have enormously enriched themselves at the expence of a deluded, impoverished, and ruined Public.

In order to prove an assertion, which I made in the former part of this Work, that a reimbursement by means of a sinking fund is in fact paying the capital twice, nay even three times, I must observe, that a bonus from 3 to 5 pr. ct. is given on each loan, which indemnifies the money-lender against a possible fall in the price of Stocks, while any advantage which might proceed from a rise in the price, is lost sight of, although it has sometimes, from the influx of money from abroad, been so considerable, as to bring the bonus to 10 a 12 pr. cent.

I do not pretend to find fault with this principle, as I believe it to be necessary for securing the money against the time it is wanted, and in order to ena-

ble the Minister giving such a form to his loan as he may think most beneficial for the public interest, in conformity to the principles of equivalent value, and the natural powers of money.

This advantage is, however, unheard of in all private money transactions, and if laid out at compound interest, procures to the money-lender, in a certain number of years, a sum equal to the whole capital lent.

The higher income given for money, beyond what is obtained for a perpetuity in land, procures also to the lender, in a certain number of years, when laid out at compound interest, a second sum equal to the whole capital lent.

A reimbursement, therefore, of the capital at a distant period, by means of a sinking fund, gives a third time the capital borrowed.

But what shall I say respecting the sale of 3 pr. cents. at 55 a 56, and the repurchase of them at 96 a 97 pr.ct. that is to say, giving above 170 for 100 received, over and above the annual interest.

When the one and the other operation takes place within the course of 8 or 10 years, as was lately the case in Great Britain, the advantages to the money-lender are superior to any I have enumerated, and admit of no apology or justification whatever.

Having now shewn the insufficiency of our present system, and collected all the materials for raising a new financial machine, it remains for me to explain the arrangement of its component parts, in order to produce the greatest possible advantage to the whole community.

As this new financial machine will have no decomposing principles in its construction, it will require no repairs; and if not adopted too late, I will venture to assert, that it will last from age to age, in every country which is not yet matured in industry and population, or which is not yet reduced to an irremediable state of financial distress.

CHAPTER VI.

Of the most perfect System of Public Finance.

ALTHOUGH the preceding Chapters contain very ample explanations of every point necessary towards the formation of my financial system, yet it will be necessary to recapitulate shortly, the several parts, in order to bring them together into one point of view.

For this purpose, my Readers must recollect, that as each money-tax increases necessarily the price of every object upon which it is levied, as well as of many other objects, by action and

reaction, the system of money-taxes has in its progress to this day, considerably enhanced the money-price of labour, and of every thing necessary for human existence.

It must further be kept in view, that as the same quantity of money, or representative signs, becomes relatively less by the objects to be represented, demanding more of them as their measure or price, the interest of money is also considerably increased by money-taxes.

This interest, or price of money, has been proved to be the director and the regulator of what each capital ought to give in annual rate of income; and all productions being the annual income of a capital representable by money, it follows, of course, that a further increase in the income of all capitals, and in the price of all productions and of labour must ensue from this greater

relative scarcity of money, producing a higher rate of interest.

I shall not here enumerate all the actions and reactions which these two causes give rise to, but confine myself to saying, that they are numberless; that their accumulating consequences are more and more distressing to each succeeding generation, and that they operate in a kind of geometrical progression.

Every Statesman admits, that taxes are oppressive; but none think it necessary to examine into all the operations of the disorder which they occasion, and mankind have thereby been left entirely in the dark with respect to the ultimate effect, being necessarily a decreased mass of industry, as well as an increased rate of interest, and a decreased produce in the amount of each tax on every accumulation which takes place, either in their number, or in the extension of any one specifically.

Neither could it possibly be discovered under the general admission of oppression, divested of all explanations whatever, that money-taxes increased also very considerably, and in a kind of geometrical progression the national expences, so that every new tax created a new expence, as well as a new deficiency in the old revenue, at the very moment that an increase in the last, or a decrease in the first, became so essentially necessary.

These being then the consequences of adding tax upon tax, it follows, that the taking off taxes must produce the direct contrary effect; and no person can doubt, that the future prosperity of Great Britain calls for that measure in the most urgent manner.

If the consequences which I have stated, should not be admitted by my readers, it becomes necessary that the

truth be explained by those persons who pretend to have a better knowledge of the nature of the oppression, in order to prevent its being said, that the complaints of mankind respecting money-taxes are groundless, and that the system of taxation may be pursued without dread or without limitation whatever.

If we do not shew the mode in which money-taxes create mischief to a community, or prove any bad consequences which arise from them, we thereby either acknowledge our incapacity for the investigation, or we tacitly confess that they do no mischief whatever: and to this extraordinary idea, I am confident the most ignorant as well as the most enlightened of mankind, will not give their assent.

Many Statesmen have indeed attempted to account for the increasing price of the necessaries of life, from the

general prosperity of the country, and consequent influx of money, raising many individuals from a state of competency to a state of affluence.

In this manner do they produce a speculative cause, in order to account for the mathematical effects of taxation.

Their speculative reasoning is also divested of any depth of argument, because those who rise to affluence put out their surplus money at interest, and do not give higher prices in the market for the necessaries of life.

Amongst those individuals also, who become rich, there are many that obtain their wealth at the expence of others who are becoming poor; and of course, in this case, one set supplies the other in those markets where the necessaries of life are procured.

The additional money, also, which

the Nation in general acquires annually, flows in gradually, and is absorbed by the increased representation of an additional quantity of capital stock, and of productions, which constitute jointly, that national prosperity so much boasted of, and requires to be supported by additional money or representative signs, as forming a component part, which cannot possibly be dispensed with.

The obscurity in which this subject has been hitherto enveloped, may be justly attributed to Philosophers having applied speculative reasoning to a mathematical subject.

They constantly neglected to trace the mathematical operations of taxation, which would have rendered the subject perfectly intelligible, and confined themselves entirely to the simple idea, that every thing became dearer on money becoming plentier.

Every investigation will, however, prove the contrary to be the case, from the diminution which takes place in the rate of interest.

The number of objects to be represented, are also so much increased by a circuitous process, under the influence of this diminished rate of interest, that the additional quantity of money, or representative signs, brought into circulation, as well as that which is saved in the representation of all objects at their diminished money-value, is thereby completely absorbed.

In this manner does one part of the money system answer to the other part; so that plenty of money produces plenty of all objects; and as plenty of money causes a lower interest, or price to be given for it, so does plenty of all objects occasion a lower price to be given for these objects, without any in-

justice being done to the industrious producers: for, in the same manner as the effects of any machine will be in proportion to the diameter of its wheels, so is the quantity of industry in proportion to the quantity and movement of money, or representative signs; and the price of such industry, when divested of taxes, in proportion to the price or interest of money.

Such is the course of nature, when not interrupted in its proceedings by money-taxes.

Let it for the present, then, be taken for granted, that I have truly explained all the intricacies of the pernicious effects which arise from taxation, and that I have proved the price of money to consist solely in the rate of interest; while the money price of any object is the measure due to it, as the interest of all the combined capitals

employed to produce it, with the addition of taxes and their effects, and that the price of gold and silver is merely the relative value of one metal with the other.

With these fundamental principles to guide our enquiry, we can be at no loss to discover how there arose so much financial distress by levying the yearly wants of the public through money taxes only, as well as the consequent necessity of resorting ultimately to the funding or loan system, which was so reluctantly pursued, although so salutary in its effects.

The imperfection of our loans in their construction, is another object which claims our particular attention, and arises from the ignorance of mankind respecting their self-extinguishing principle.

In admitting, then, that the interest

of all loans is subject to certain bounds for its period of existence, without reimbursement, that the fatal consequences of taxation are a less mass of industry than would otherwise exist, and that we subject ourselves to a less produce from each tax, as well as to an increase in the price of all things, and consequently in our public expenditure, there can be no doubt, that the true system of finance must consist in such practical operations as will check, in the greatest possible degree, these pernicious consequences, and procure, at the same time, all the necessary supplies for the State.

How easily would this object have been attained, had Government enacted, on the introduction of money-taxes, that loans should annually take place for the whole of the public expences, and that the interest of such loans should be the only object of money-taxes.

Such a system would have proved adequate to the highest expectations that could have been formed of it, and would have had the certainty of endless duration, supposing no revolution took place in the Government, by which public credit could be injured or annihilated for a time.

The funding system, therefore, constructed on self-extinguishing principles, is the most advantageous, solid, and just plan for raising the public supplies; and ought in the very first instance to have taken place for the peace-establishment as well as for the war-expences.

Supposing the interest, at that time, to have been 15 pr. cent. pr. annum, it would still have taken near 7 years to have brought the amount of taxes required for the interest of loans, to what was really levied the first year by a contrary system.

The second, third, and further years, would have had the advantage of a rapid declension in the rate of interest, by the adoption of this plan.

The progress of industry, and the growing produce of each tax, would then have assumed a very different appearance than what really took place at that remote period; and the price of every thing, as well as our public expences, would have been kept down in such a manner, as would hardly now be credited.

The taxes levied for the interest of loans during 65 a 70 years, would have formed an axis for the financial machine, upon which it might have perpetually revolved, whether such loans were founded on long annuities ceasing after a certain period, or on perpetual annuities redeemable at pleasure, and, after reduction of interest, ultimately extinguishable by conversions, as has been already ex-

plained: the last-mentioned would evidently have been preferable to long annuities, while interest remained so very high. Industry would then have been no more subject to any check from new taxes, and the price of every object produceable in Great Britain, would have been no further increased from that cause.

The first loans would doubtless have been subject to the highest interest; but, on their reduction to a lower rate, there would have arisen a provision of interest for further annual loans.

Three grand resources would have been operating together, during those 70 years, in which the financial machine was to be completed for perpetual duration, if the Government was not annihilated at one time or other.

1. The progressive increase of industry,

and consequently of the produce of existing taxes.

2. The power which Government possessed of raising yearly a new tax for the interest of loans.

3. The gradual reduction of interest, by paying off the loans at high interest, when the rate became lowered.

These annual loans would naturally become at first greater, in consequence of so many years accumulating taxes, and of the high interest of loans increasing the price of every object, as well as the public expenditure.

It is however probable, that a considerable number of the 65 or 70 years, would have passed without laying on a new tax for the interest of the annual loan, because the natural increase upon an established number of taxes, and the

reduction from high to low interest, would have been more than sufficient for the annual loans during peace.

We must indeed detach from our ideas of the annual wants of the Public, either for a peace or for a war-establishment, the scale of their present magnitude, as it is no ways applicable to the price of every thing for the first 70 years after the introduction of money-taxes; and the low prices which then really existed, would not have acquired even that height, if the idea of making loans had originated at the same moment as that of taking taxes in money, and that the latter had also been solely confined to the interest of loans, and to the Civil List, as an annual debt due to the Crown.

Unfortunately for mankind, the system of public debts was adopted some centuries too late; and the present high

price of European productions, as well as the actual incapacity of many States to raise money, have originated from that circumstance, and from the general ignorance respecting money, and money taxes.

Great Britain has hitherto supported the increase of taxation, by means of her increasing industry, her insular situation, her superior constitution of government, and her mechanical improvements, which have procured her many advantages over other nations.

Whenever she could not obtain, by the balance of her foreign trade, the necessary augmentation of representative signs, in order to support her increasing industry, and her foreign expences in times of war, as well as the consequences of her accumulating taxes, she has never failed to acquire it by her punctuality in all money con-

cerns; and consequently by her credit, from the individuals of other nations, through her public loans.

These purchases in our funds have been carried to such lengths by foreigners, that at this moment they have claims nearly equal to all the circulating coins of Great Britain.

However alarming this claim may appear, yet it is far from being so in reality, because any attempt to sell a considerable part of the public funds, in order to receive the amount in coin or bullion, would reduce the price of Stocks so considerably, as to make Foreigners desist from further proceedings of that kind.

The possibility of raising money by loans, was probably, on account of the ignorance of mankind, treated as chimerical some centuries ago, as well as the possibility of having a never-failing paper-money, or Bank-notes, in circula-

tion, yet we see that both have taken place, and that Great Britain could not have existed without them.

But the progress of truth has, in all ages, been impeded and even opposed by those men who had the greatest reputation for wisdom.

This cannot arise from their want of capacity for investigation, and can only be accounted for by the bad effects of early prejudices, or to their want of candor in adopting the discoveries and superior combinations of those who do not enjoy the same reputation for wisdom.

The resistance which the Copernican System experienced by a tenacious adherence to the erroneous ideas of Ptolemy, affords a strong proof of this predilection for received opinions, and should be a warning against implicit confidence in men

of reputation, who are peculiarly endowed with the gift of writing or speaking.

Mathematical truths must, indeed, at last prevail over all difficulties or resistance; and with whatever indifference my ideas on finance may be at present received, the time is not very distant when necessity will call for their being partially if not completely adopted, as the only means left for saving the nation from ruin, and healing those wounds which the errors of Statesmen have given to the financial sinews of Great Britain, and to the peace of many families of small income.

The inconsistency of the human understanding, in reasoning upon public finance, and in supporting the plan of a sinking fund, is inconceivable.

We complain of the national debt, because the interest must be annually paid by taxes.

Taxation is of course the disease we are labouring under ; and we wish to get relieved from a part, because we think that it is gradually undermining the State.

But the mode in which taxes operate to the detriment of a nation, is never considered or examined into, although it is the only means of acquiring a knowledge of what would operate either as a cure, or as a partial relief.

We confine ourselves, on the contrary, to the popular idea that, by creating a sinking fund, in order to pay off the national debt, the interest, or the disease, will of course cease.

Infatuated human nature ! Is it not evident, *that the sinking fund, raised by taxes ! and the supplies raised by taxes within the year, in order to avoid loans,* are not only the self-same disease as *the interest raised by taxes,* of which so

much is complained, but also a dreadful aggravation of twenty times as much as is either attempted to be cured or avoided by these operations for suppressing annual interests!

The pretended cure, as well as the precaution of avoiding any further disease of interest on loans, by raising the supplies within the year through taxes, are consequently mere delusions of the human brain, which lead to the most fatal consequences.

We cannot even boast of the ultimate relief which must ensue, when a part of the debt is extinguished, and that the sinking fund taxes, as well as others to the amount of the interest redeemed, will be taken off, as the political body will be reduced to a dreadful state of debility by this important aggravation of the disease during so great a number of years.

By this state of debility, must be understood the enormous prices of every thing, and the consequent increased annual expence, without any adequate income.

Fatal symptoms of declining industry, and even of insurrection, may also appear, and become incurable, before the period of relief arrives.

Let us then reflect on the subject before it be too late, and commence by immediately desisting from that desperate expedient of a sinking fund.

It is evident, that no good can possibly arise from it, and the act of abandoning this unfortunate and erroneous system will insensibly lead us into all the paths of financial wisdom.

The dread hitherto experienced respecting an ever-increasing and eternally

existing debt is now entirely removed by a knowledge of the practicability of making those debts completely extinguishable after a period of 60 or 70 years, or reduceable in their interest in proportion to the reduction which might take place in the annual income or price of money, with the possibility of ultimate annihilation by repeated conversions.

As our ancestors have most undoubtedly deviated from the true principles of finance, on the introduction of money-taxes, and that every succeeding generation has thus been involved in greater expences, in greater debts, and in greater difficulties, it becomes our immediate duty to check and to mitigate those evils as much as lays in our power, by the most extensive adoption of the grand panacea, called public Loans, wherever their application can be substituted for an annual levy in taxes.

This substitution will at once reduce such part of the disease to about one-twentieth of what it would otherwise be.

No nation can possibly dispense with that degree of taxation which is necessary for the annual interest of all loans, because the annuity must rest on the increased value, and of course on a component part of the money-price given for the objects annually taxed for that purpose.

The annual settlement on the Crown, as well as some other inferior annual settlements, should also repose on the same security.

Great Britain is no doubt sufficiently capable of providing for the interest of her national debt, and for those annual settlements by means of taxation; and it would even be a matter of great consolation to the Nation, that this annual interest was

gradually diminishing from a proper construction of the public debt, than by means of further taxation, because an additional annual fund would be then naturally arising, in order to provide for the interest of new loans.

But as the interest of this public debt has become so very considerable from the erroneous system of finance which has been hitherto pursued, and that the improvident construction and present form of those debts admit of very little extinction by natural means, we are called upon not to admit of any aggravation to the disease of taxation, when it can possibly be avoided.

This leads me to state that the peace-establishment might also be raised by loans in the same manner as the war-expences.

It would be absurd to suppose that

there was any necessity for levying the expences of the army, the navy, and of the miscellaneous services during peace, in any other manner than the war expences with which they are often blended, as the regular payment of the objects furnished, is all that requires to be attended to, and the Nation has of course the right of raising the money in such a way as may be found most beneficial to the whole community.

The true principles of finance therefore, as well as the necessity of reducing the disease of taxation to the lowest possible state, demands that the expences of the peace-establishment be provided for by annual loans, instead of taxes within the year, in the same manner as dire necessity has already called for the provision of the war-expences.

How fortunate then for the inhabitants of Great Britain, that the very

simple combination of self-extinguishing loans can still be applied as a substitute towards relieving us from that part of our present taxes, which form a provision for our peace-establishment, and that no substitute whatever is necessary for the present amount of our sinking-fund whenever its destruction is resolved on.

Supposing the former to be 5 millions and the latter 6 millions, it follows of course that the nation may be immediately relieved of 11 millions of annual taxes; though prudence will, no doubt, suggest its being done gradually, in order to avoid any bad consequences from too great and too sudden a change in the relative value of every thing.

To supply the wants of 5 million annually for the peace-establishment, an annual loan to the amount gradually taken off, must necessarily be resorted to.

The annual interest on each year's loan, when fully taken off, may be calculated on an average at 4 pr. cent. or £200,000 sterling.

That additional charge, or accumulating expence, every succeeding year, will be found in the naturally growing produce of the remaining taxes every succeeding year.

This increasing produce in taxes has been proved, in general, to be the effect of an increasing importation of the metals in Spain and Portugal, from whence they are dispersed throughout Europe to the most industrious nations, amongst which Great Britain is so conspicuous.

But the act of taking off gradually 11 millions of taxes, being tantamount in effect to the introduction of several million sterling in specie, would produce so rapid an increase of industry, and so

considerable a diminution in the price of all things, that a further increased produce in all the taxes would take place annually, to the amount of several hundred thousand pounds, independant of what arose from the increase of the metals and the whole 11 millions would be again forth-coming in the course of a certain number of years, on a lesser number of taxes, by means of a more extensive industry.

The public expences for the peace-establishment, would also be so much diminished by the reduced price of every thing that a 4½ million loan, or even less, would soon be substituted for the 5 million annual loan; and as there would be no use for the extraordinary increase in the produce of taxes amounting as abovementioned, to several hundred thousand pounds sterling, every succeeding year, until the whole effect had taken place, a tax or taxes might further be

annually taken off to a very great amount, and particularly if the natural or ordinary increase was equal to the interest on the annual loans.

The distinction between the ordinary and the extraordinary increase, will no doubt be lost, as they must of course appear blended together; but the general excess will be easily ascertained.

The good consequences which would arise from this plan, would be so numerous, and succeed one another so rapidly, as to astonish mankind, and make our present system appear in that dangerous and destructive light, which it so peculiarly merits.

It may however be thought necessary to put a part of our national debt into a state of gradual extinction, in order to secure with more certainty the perpetuity of our financial resources, to

which the mode of making loans in the 3 pr. cents, during the two last wars, has given a very sensible shock.

My readers will easily perceive, that a conversion of the 3 pr. cents into a 70 years annuity, would not afford a very speedy relief, and that it therefore becomes necessary to convert a considerable part, at least, into a 4½ a 5 pr cent. fund redeemable at pleasure.

In this case, a part of the extraordinary increase of the produce of taxes, might be appropriated towards the temporary increase of interest, from the conversion, and will of course form that sacrifice which is so necessary to be made for our past errors.

The precaution of converting a considerable part of the 3 pr. cents. into a 4½ a 5 pr. cent. may perhaps not be absolutely necessary towards the permanency

of our financial system, but the public debt cannot with propriety be left in its present state; and it behoves us to add every sort of security, in support of a fabric, which has been built upon very unsafe principles, and to which no attention has been paid, until it was upon the point of giving way.

The large sums of interest to be provided for in times of war, present themselves also for political consideration, as the natural increase in the produce of taxes is no ways adequate to such a provision.

Hitherto the interests of war-debts have been raised by new taxes; but as those times are not the most favourable for such an operation of finance, it may not be improper to allow the extraordinary increase in the produce of the taxes to accumulate to 2½ or 3 millions, during peace, and by applying it during

that time to defray in part the peace establishment, reduce thereby the necessary annual loan of $4\frac{1}{2}$ or 5 millions in proportion as that superfluity of produce arose.

These 3 millions, in addition to the annually growing produce of taxes, will supply the interest of loans during war; and for any deficiency that might exist, some of the old taxes may be renewed, until a peace takes place, when the growing produce of taxes will be again sufficient for the interest of the loans to be made annually for the peace-establishment.

As there will probably, during that second period of tranquillity, arise some reductions in high interest, or some extinction of annuities granted, an annual fund may again be established, to be expended in interest on loans during war; and the loans for the peace-establishment will, in

consequence of this annual fund, be again so much less.

I have now stated how far a nation may go, with propriety and justice to all parties concerned, in substituting loans for taxes, and even how public loans may be so constructed, as to disappear in the course of a considerable number of years, without any reimbursement of the capital, or injustice to the money-lenders.

I only wish, however, to urge for the present, the absolute necessity of taking off taxes to the amount of the sinking fund, and also the right which the Public has to demand it from the Legislature, as a contrary system is so repugnant to good sense, and extremely injurious to the future welfare of the Nation.

This relief from taxation will alone reduce, very considerably, our expences below what they otherwise will be,

and occasion an extraordinary increase in the produce of our taxes, supposing even a war to take place next year.

This extraordinary increase, joined to the ordinary increase, will provide for the interest of the loans in the first years of the war; and when that resource is exhausted, it will be still expedient and practicable to avoid new taxes, by encroaching on the annual peace-establishment fund of 4½ or 5 millions, making of course the annual war loan so much more as may be expended in interest, until the war shall cease.

For that part of the annual peace-establishment (supposing even that it amounted to almost the whole) which might be thus consumed in interest of loans during war, it will be necessary to continue annual loans during peace,

until the ordinary increase in the produce of existing taxes, the falling in of annuities, and the probable reductions in the interest of the loans made during war, shall have again provided for them.

On the supposition, however, that the resources which I have enumerated were not adequate to the exigencies of the State, or that it was deemed politically expedient to have the deficient part of the annual peace-establishment immediately forthcoming from taxation, recourse may be had to levying a certain annual sum in taxes, say 2 or 3 millions after peace is established. The same mode of proceeding, as above stated, may again be followed during future wars; and it is necessary to observe, that whatever disappointments might occasionally arise, either in the growing produce of taxes, in the reductions of interests during peace, or in

the increase of our public expences, that it may at all times be provided for through the mode which is now adopted; that is to say, by laying on new taxes, or by levying again some of those which were taken off, which every Government has the right as well as the power to do.

It is evident, that the system which I have endeavoured to explain, destroys *no resource whatever*; but on the contrary protracts, by a happy combination of the powers of money and of *taxes*, for the interest of loans *only*, that accumulation of burdens, which produce such confusion in the economy of States, as well as of individuals.

I am fully aware, that I have applied my studious hours to a very ungrateful subject, of which few individuals will attempt an investigation; and of which a model cannot be made, as is

the case in mechanics, so as to convince even the most ignorant man of its effects, without giving him the trouble of examining the different parts by which the whole is constructed.

I have however done my duty to the Public, in communicating what knowledge I have acquired by reflexion and deep meditation; and if the inhabitants of Great Britain persist in following a system that leads to evident ruin, I can only silently lament their infatuation.

They must not imagine, however, that these principles are exclusively applicable to Great Britain, and that no other nation can adopt them.

The principles I have explained are applicable to the finances of all countries, whatever may be the errors which they have already committed.

Holland may be considerably relieved in times of peace, although she has *bound* herself to annual reimbursements, which form a part of her annual deficiency; and this error can only be repaired by new annual loans, on proper principles, to the same amount, on which a sacrifice for borrowing with one hand, at high interest, to pay off with another hand what was constituted at lower interest, must naturally ensue, because public credit calls imperiously for the rigid performance of all engagements which are entered into.

This error proceeded from their Statesmen supposing, very improperly, that an *obligation* to reimburse was necessary to obtain the money wanted on loan, or that a fractional part of the annual interest would be saved by submitting to this inconvenience of reimbursement.

It is in my opinion more excusable than that of *gratuitously* paying off without any obligation whatever to do it, and at the rate of £ 140, or more, for every £ 100 sterling received, as will take place in Great Britain; though, I must confess, that the impracticability of paying off public debts has been self-evident, in Holland, so long ago as 1795, since which time this system has been mostly adopted.

Holland is not even able to bear her present taxes; and she will therefore be at last *compelled* to relieve her inhabitants from the grievous oppression of paying annually, as a gratuitous gift, 7 pr. cent. on their incomes, and $\frac{1}{2}$ pr. cent. on their capital, for the purpose of specific reimbursements, and to substitute, in lieu of it, annual and voluntary loans, on proper principles, to that amount, as well as for the remaining annual deficiency.

The interest on the general annual deficiency of, perhaps, 14 a 15 millions of guilders in times of peace, would indeed appear to be an increasing annual charge every succeeding year, which the increase of her industry would probably not be equal to, and of course that the additional annual interest would not be forthcoming in the annual increased produce of her taxes.

But the decrease of interest on her debt, which might, by a proper construction, take place in a few years, would more than provide for it; and, by economy in her annual expences, she may even in part provide for this annual interest on 14 a 15 millions annual loan, particularly if she attends to the regularity of her payments; as every irregularity on this point produces a great waste of public money.

If the East India Company, or their

settlements, and their commerce, could also provide for the annual sum of 5 or 6 millions of gilders, which her debts and her civil-establishment cost the nation at present, the general deficiency would be considerably diminished.

I consider her, however, as hardly able to bear future wars, from the greatness of her debt, and of her expences, as well as from her state of maturity, with respect to internal industry and external commerce, until the interest of the national debt is considerably diminished by voluntary reductions, so as to provide again for large annual loans without new taxes.

Her breach of faith is also at present much complained of, and of course her credit much impaired, by taking *a sursis*, or not liquidating what was due according to the obligation entered into with the Public, on taking over the

effects and engagements of the East India Company, and confirmed by an article of the Constitution of 1801, which only *required* the sacrifice of borrowing with one hand to pay off with the other; and, like the first-mentioned reimbursements, demanded no very important new provision of interest.

It is to be hoped, that this *sursis* will not degenerate into a permanent act of bankruptcy, which would put an end to all financial resources for a very long course of time; as the increase of taxes, either ordinary or extraordinary, to any great amount, is impracticable, and the resource of public credit cannot exist without justice. Necessity must therefore ultimately enforce fair-dealing, and repel the false economy of a partial bankruptcy.

The financial situation of France has never been an object of enquiry

with me ; but I know that she has, in imitation of the *errors* of Great Britain, created a sinking-fund, of no great importance indeed; though she has not *bound* herself to any reimbursements since the act of bankruptcy which reduced her debt to $\frac{1}{3}$ of its amount.

An act of bankruptcy is no doubt attended with serious consequences; but it must not be supposed, that the real principles of finance do not afford the means of repairing the machine, as the sacrifice necessary, is only a very heavy interest on the loans made for the first years of diffidence, after a breach of faith has taken place, and until confidence be again restored.

These breaches of faith originated from an ignorance of the true principles of finance; but a knowledge of these principles will make it *useless* in

future, and they are of course *no more* to be apprehended.

The French nation possesses so many men of quick comprehension, and of ready combination, that I have no doubt they will make the object of finance their particular study, and discover that such portion of their annual revenue which is now applied to the interest of their debt, is all that is required of the nation in taxes, and that the remainder, supposing it even 400 millions of francs, *might* be annually raised by loans, payable by instalments of 10 pr. cent. monthly.

As England and Holland have already demonstrated the right and the power to take 10 pr. ct. on every person's income as a free gift, there can be no shadow of doubt respecting the right and the power of tacking to this burden the current interest, so as to make

it a *favorable loan* to those who are taxed in this manner, should voluntary loans not succeed.

But the French nation will naturally commence with loans for a small part only, in order to be certain of the practicability of this system; and will gradually extend it more and more, from the great prosperity which they will find to arise from it, as well as on account of the sensible diminution which will take place in the ratio of interest on their public funds, and in their expences, by the regularity of their payments, and by the diminished price of various objects.

That they must now pay about 10 pr. cent interest for what they may think proper to borrow, is mostly to be ascribed to their having broke their faith with their creditors; but the for-

feit of increased interest will only exist for a few years, if they attend to the proper construction of their debts.

I doubt if their national interest amounts to four millions sterling, including that on arrears and on anticipation of revenue ; and as their former errors and their past bad conduct, in breaking their faith, will in a few years be repaired and effaced, they will have many advantages over Great Britain, in point of finance, since their taxes and their debts will be both relatively and positively much less.

Should both nations persist in following their present systems, they will even ultimately be in the most favourable situation, because they are not following the system of reimbursement to any extent, and can at all times relieve themselves from a great portion of their

present taxes, by substituting loans, either voluntary or forced, while we are burdened with an immense debt, and are involving ourselves in more taxes and more expences, from our sinking-fund system, to an enormous amount.

It will perhaps be said, that I act improperly in talking so favourably, and in so explanatory a manner, respecting the finances of France: but it must be considered, that the inhabitants of Great Britain are kept in the dark upon this subject; that science is intended by Nature to be for the benefit of all mankind; and that when a new and eligible system is adopted by one country, it will naturally be imitated in other countries.

The British nation has hitherto neglected this science, and amuses herself with the paltry progressive increase in the produce of her old taxes, as a

proof of her prosperity, and also with the false idea, that the want of public credit in France renders that nation incapable of any financial efforts.

This new system will therefore, most probably, make its way first in other countries, whose inhabitants have not this increasing resource to amuse themselves with, and be afterwards adopted by Great Britain from dire necessity; although it might have taken root there eighteen years ago, and have produced a very different political situation, with respect to other countries, than at present exists.

I shall now conclude with some general observations, applicable to all countries.

Every Government has the right and the power to levy on the inhabitants, by taxes or by loans, as may be found

most beneficial to the community, whatever may be necessary for its internal defence, and for its external attacks in the case of war.

Loans are, in all cases, (except for interest) to be preferred to taxes.

Those loans may be voluntary or forced, at the current rate of interest, without prejudice to any individual whatever; and may be so constructed, as to be subject to ultimate extinction in the course of a given number of years, without any greater burden in taxes for the interest, than those levied in the first 65 or 70 years.

These principles give the power of establishing public finance with such security, that it may move on its own axis, as long as Government continues to exist; and be even continued under a succession of governments, as long as the world exists.

The resource of bankruptcy, by not fulfilling every engagement, produces greater burdens and inconveniences than it attempts to remove ; and is the height of injustice.

It acts, in the first instance, as a violently oppressive tax, solely upon those individuals whom it injures ; and, in the result, becomes a very heavy tax upon the whole community, by destroying public credit.

This is evident, in the depreciated state of the remaining funds, and in the high interest which a nation is afterwards obliged to give ; both which circumstances are injurious to the whole community, and particularly distressing to those who are divested of their just claims upon the Public.

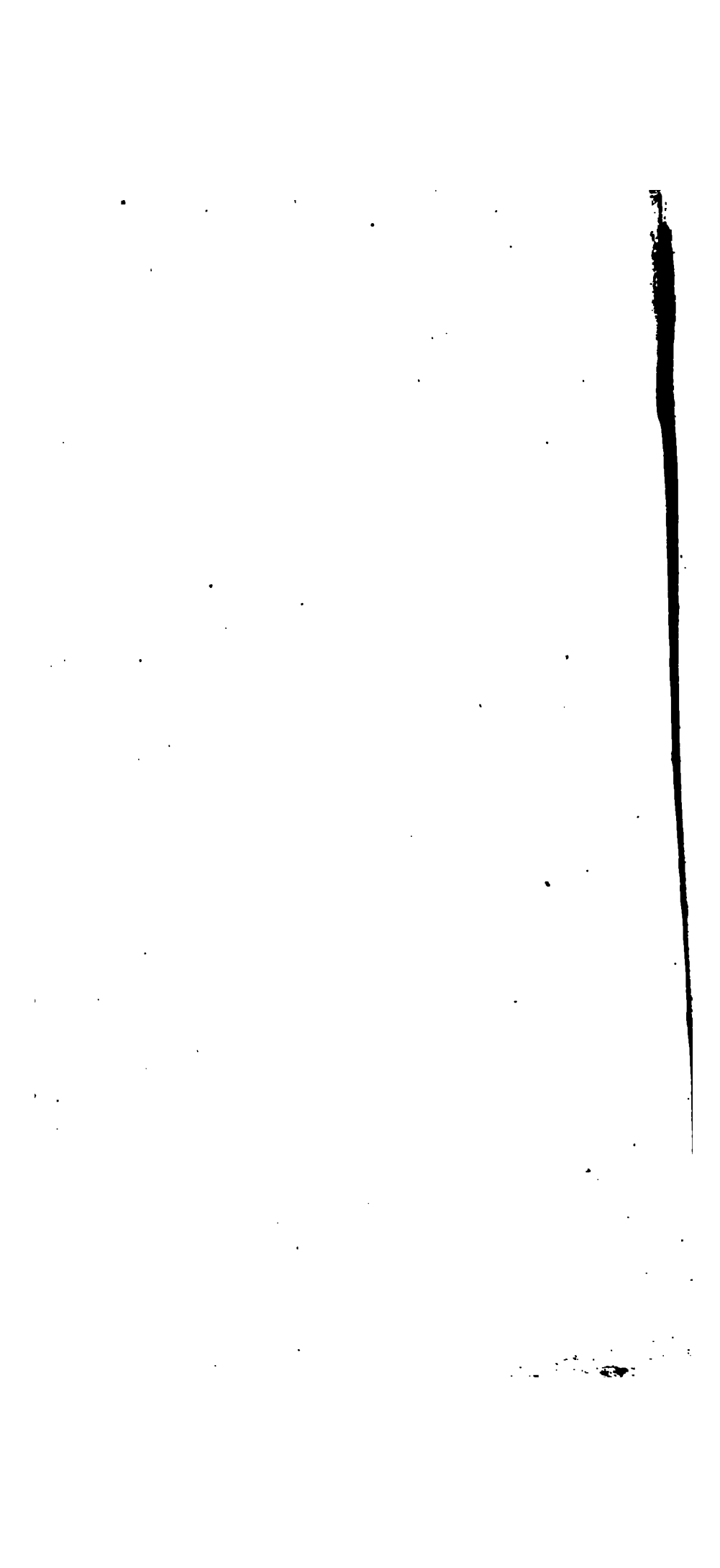
It is therefore for the interest, as well as for the honour of the Public, to

submit to a general tax, in order to avoid these consequences.

National bankruptcy, or national incapacity, in point of finance, is of course national nonsense; and takes its rise equally with the financial distresses of some countries, and the approaching danger of others, from the want of a sufficient knowledge of the subject.

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